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ABSTRACT

The creation of foundations for fund raising at public colleges and new ideas and techniques for established foundations are discussed in 13 chapters. The relationship of the foundation and the institution is described from the viewpoint of the institution and also that of the foundation. Article titles and authors include: "How the Foundation Relates to the Nonprofit Organization" (Robert B. Rennebohm); "How a University Relates to Its Foundation" (Edwin Young); "State University-related Foundations" (Timothy A. Reilley); "The Foundation Board of Directors at the Public Institution" (Michael J. Worth); "Operating Policies for Institutionally Related Foundations" (Patricia P. Purcell); "Constituency-based Fund Raising Through an Institutional Foundation" (Charles G. McCord); "Legal Aspects of Foundations" (Donald Lemish); "Formulating Investment Policies for the Institutionally Related Foundation" (Lewis W. Barron); "Financing and Budgeting a Foundation" (Darrell D. Wyrick); "Multiple Foundations: Advantages and Problems" (George E. Moore); "The Community College Foundation" (Lynn M. Degerstedt); "The Health-Related Foundation" (David C. Lawrence); and "The Special-interest Foundation" (Dwight V. Roberts). (SW)

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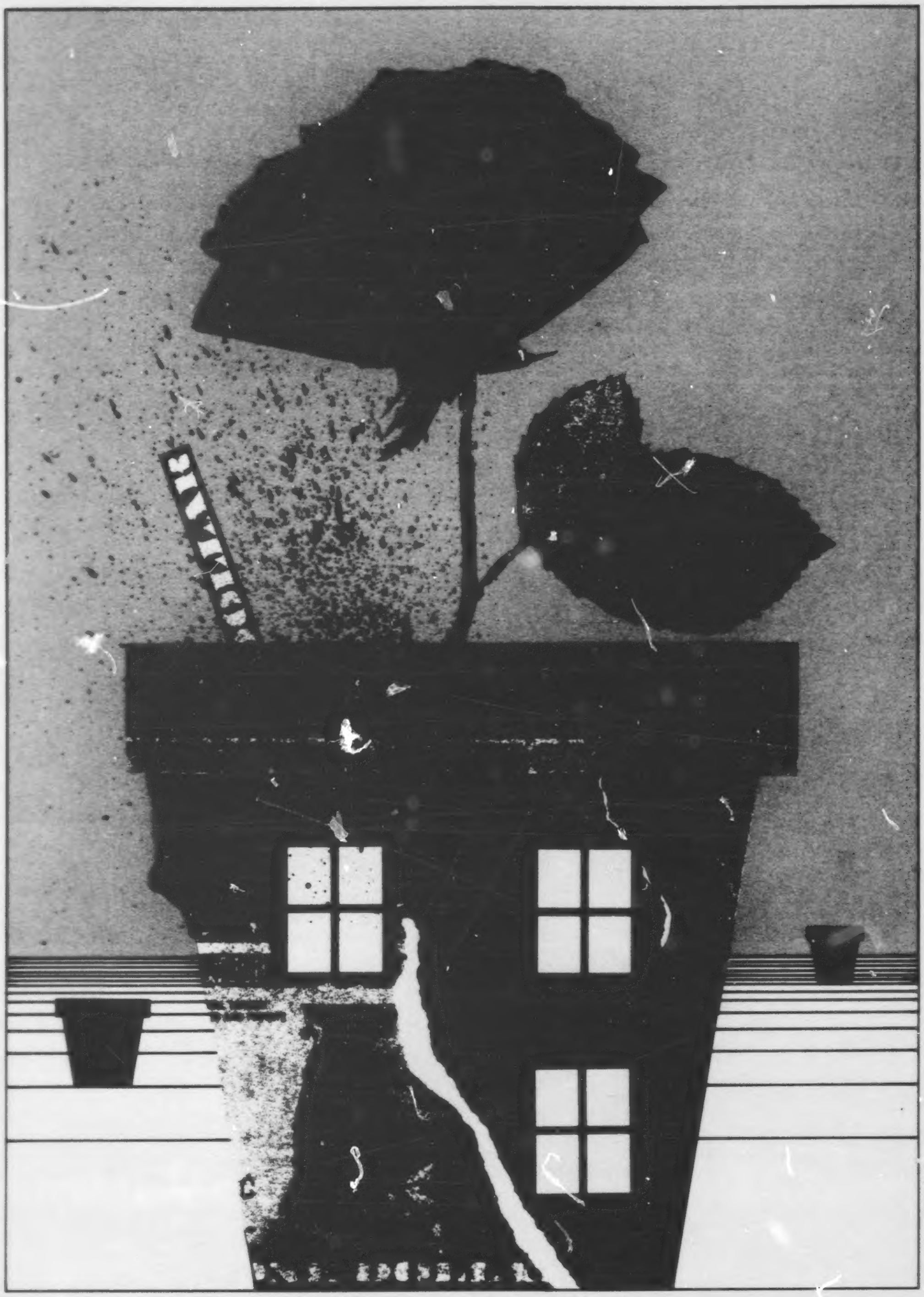
Timothy A. Reilley



Raising Money Through an Institutionally Related Foundation

Timothy A. Reilley, Editor

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FOREWORD

Foundations play a vital role in supporting the work of nonprofit institutions. This book offers an in-depth look at the foundations that serve public nonprofit institutions, mainly universities but also two-year colleges and medical institutions.

Various chapters explore how foundations related to nonprofit organizations are organized and controlled, how they exercise their functions, and how they operate as separate institutions. The information herein highlights the salient features of a foundation: its basic policies, general patterns of control and operations, and how it achieves its objectives. Material covered in more general books, such as personnel management and management style, has been omitted. This book should prove invaluable both to institutions seeking to establish foundations and to existing foundations looking for new ideas and techniques for improving their operations.

In the opening chapters, Robert B. Rennebohm discusses how a foundation should relate to the nonprofit organization it serves; Edwin Young then examines the flip side of this coin: how a university should relate to its foundation. As Rennebohm and Young are, respectively, president of the University of Wisconsin Foundation and president emeritus of the University of Wisconsin System, their viewpoints complement each other to paint a broad overall picture of foundation-institution relationships.

Chapter 3, which I have written, focuses on foundations related to state universities. My recent survey of all four-year state universities provides background for coverage of organization, staffing, financing, operations, investments, policies, and fund raising at foundations affiliated with public universities of all sizes.

Another author's survey -- Michael J. Worth's study of public university regents -- underpins his discussion of foundation boards of directors -- their establishment, organization, and functions.

Patricia P. Purcell deals with the policies and procedures that ought to direct a foundation -- the basis for all its operations.

In Chapter 6, Charles G. McCord presents a way of integrating the foundation's overall mission of fund raising with various constituency programs. McCord examines how to make a foundation's fund-raising program increasingly sophisticated by segmenting constituent groups and targeting programs to communicate the institution's needs to each group.

Donald Lemish's overview of legal aspects of foundations can serve as a guideline to all kinds of institutions that want to establish a foundation.

Lewis W. Barron describes a variety of investment practices relevant to foundations today. While there is no one way to invest nor identical investment problems at every foundation, Barron provides general guidelines to formulating investment policies, which should be applicable to many foundations.

How foundations can support increased fund-raising operations in tight economic times serves as the spring-board for Darrell D. Wyrick's discussion of financing and budgeting a foundation.

The final four chapters zero in on more specific types of foundations. George E. Moore chronicles the advantages and disadvantages of an institution's establishing multiple foundations. Lynn M. Degerstedt describes the unique characteristic of the community college foundation, particularly its constituency relations. David C. Lawrence looks at the hospital-related foundation. Finally, Dwight V. Roberts writes about the special-interest foundation. While these foundations can be affiliated with any one of many types of organizations, Roberts outlines the similar steps all special interest foundations must take to establish themselves and successfully raise funds.

Overall, this book should prove a solid help to those who govern and manage foundations affiliated with institutions of all sizes and missions.

I owe many thanks to the authors for their generosity in sharing their expertise in their particular areas. The book draws from many of the top experts in the field of foundation work.

In particular, I owe thanks to Sharon Adler who typed the original and corrected the revised manuscript. She spent many hours of extra time getting the book ready for press.

Timothy A. Reilley
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CHAPTER 1

HOW THE FOUNDATION RELATES TO THE NONPROFIT ORGANIZATION

by Robert B. Rennebohm
President
University of Wisconsin Foundation

The relationship of a foundation to the institution it represents must be cooperative and harmonious if the foundation is to be maximally successful. An institution usually creates a foundation when cumbersome and restrictive laws or regulations prevent it from effectively raising funds and administering gifts. In some cases, the demands of these tasks--their very volume and complexity--may justify the existence of a separate organization. Whatever the reason for creating a foundation, the relationship it has with its parent organization is critical. The secrets of an effective relationship are strong leadership, a clear articulation of goals, and open communication.

Choosing the leaders

Structure and governance are the heart and strength of a foundation. Forming a foundation presents an opportunity to pick the best leadership talent available to carry out its important work. If the foundation merely uses the institution's trustees and administrators to carry out its special mission, it gains little. Rather, the foundation should capitalize on its separate status, which permits it to be completely nonpolitical and nonpartisan in choosing board members and other leaders.

Institutions should pick officers and directors for their ability as civic and opinion leaders and for their fund-raising experience. They should have leadership experience within local community fund, educational, church, and hospital drives, and the like. They also should have an ability to manage money, whether it be for short-term investments or for permanent endowment. Other attributes to look for include legal, public relations, direct mail, advertising, and accounting expertise. Above all, they must have a deep and abiding love for the institution and a total commitment to its goals.

Identifying priorities and policies

The overriding purpose of a foundation is to serve the institution. It cannot engage in self-serving attempts to set priorities for the institution. The institution sets its own priorities and looks to the foundation to help it achieve its goals. The foundation responds by raising funds and administering gifts.

The mutual respect implicit in this relationship requires a clear-cut delineation of authority and responsibilities. Continuing and complete communication between the institution's board of trustees and the directors of the foundation is necessary. The top executive officers of each organization are best equipped to carry out this dialogue. They should have ample opportunity to comment on and review the responsibilities of each.

The foundation should not be asked to raise money for a wide variety of projects without having the opportunity to discuss the merits and the possibility of success or failure in the fund-raising marketplace. An uncontrolled or disorganized set of fund-raising objectives imposed by the institution may limit the effectiveness of the foundation. On the other side of the coin, the institution should know about and approve of the foundation's fund-raising policies and procedures. For example, a high-pressure approach by a foundation may produce some immediate results, but the long-range effect on the institution's image could be harmful.

Building cooperation through communication

An effective way to exchange information within an educational institution is to have the foundation executive sit on the institution's gift and grant committee. This committee is responsible for reviewing all potential fund-raising projects and setting priorities for those it judges suitable. This arrangement gives the foundation a chance to be involved at the start of this process, a critical time at which it can make its position known on the fund-raising potential and feasibility of the projects.

Other opportunities exist for foundation staff members to serve on institution committees. Naturally, the foundation development officers assigned to a particular college, school, or division of the institution will serve on that unit's public relations, alumni, and development committees. They will carry important communications back and forth. The campus long-range planning committee, communications committee, and similar groups offer other opportunities. The more exchanges that occur, the less chance for misunderstandings about priorities and the proper role of each organization.

Involving institution administrators in the foundation's fund-raising activities is also important. They should make themselves available for calls on top-rated gift prospects as often as possible. The fund-raising and gift-tax expertise of the foundation officer, coupled with the project knowledge and prestige of the institution representative produce an outstanding and effective team.

When an institution representative is not present for the solicitation, the foundation solicitor shoulders an added responsibility. He or she must be thoroughly familiar with the institution's priorities and goals and with its policies on the acceptance and use of gifts -- particularly those with unusual restrictions. Foundation representatives, particularly new ones, should have a complete training period to develop this expertise before making calls alone.

Gift administration

A basic strength of the foundation, and quite often, the reason for its existence, is its ability to manage gifts and endowments outside the bureaucratic structure of the governmental unit controlling the institution. The foundation must not function under a bushel basket if it is to gain the confidence of institution administrators and staff. The foundation should make sure that the institution understands its management and accounting procedures and its investment policy. There must be an established reporting procedure so the status of funds, including permanent endowment funds and available income, is available to the personnel responsible for their use. Quarterly reports are usually adequate but sophisticated computer systems are better. They allow monthly or immediate reporting, if required.

The foundation, in its position of public trust and as the administrator of gifts and bequests, must make sure the institution uses the funds as directed by the donor or testator in the gift instrument. Budget shortages and pressure to fund emergency projects can lead to stretching the terms of the gift by the users. Poor stewardship of this type can adversely affect the confidence of potential contributors and reduce future gifts.

Financing the foundation

A new foundation, like any new volunteer group, will need adequate financial support from its parent institution during its early and less productive years. These first years are ones of image building. The foundation must establish a track record to stand it in good stead for the future. The institution may have to provide total financial support in the first year unless the new foundation has been blessed with a well conceived and effective inaugural support campaign.

As the foundation grows and develops a following, it will be able to generate its own operating funds. Sources include gifts from its leadership and close friends for that specific purpose and monies from unrestricted gifts and from earnings per service charges on restricted gifts. The larger and well-established foundations at major universities can fund themselves entirely on the short-term investment of gift funds without touching any of the gifts themselves. A West Coast university foundation holds all gifts it receives until at least 5 percent of their value is earned to cover its operating costs. Others have levied an outright service charge on all gifts received.

Institutions must realize that financing a foundation in its early years is a sound investment that pays handsome dividends. This priority, along with strong leadership, open communication, and a clear statement of goals, will result in a highly successful fund-raising program.

CHAPTER 2

HOW A UNIVERSITY RELATES TO ITS FOUNDATION

by Edwin Young
President Emeritus
University of Wisconsin System

Although legally independent, universities and their related foundations maintain close working relationships. An open line of communication between the university administration, represented primarily by the chief education officer, and the head of the foundation is the hallmark of such a relationship. These leaders are concerned with setting the goals of the foundation, outlining its jurisdiction, and defining its relationships with other groups such as alumni associations, athletic fund-raising organizations, and other foundations that give support to the university. They also must be open to members of the university community who wish to deal directly with the foundation.

Building strong relationships

The way different constituencies of the university and a foundation interact is an especially important concern. Since the foundation's success depends upon the goodwill, voluntary cooperation, and support of a great number of individuals and groups, it must handle all relationships with a great deal of tact. Both the university and the foundation should be prepared to explain the reasons for existing policies and how they were developed.

The university has a duty to share in the development of goals and policies for the foundation, for two reasons. First and foremost, the foundation exists to serve the university and depends on its direction. Second, the university must be prepared to run interference for the foundation when an outside party attempts to deal with the foundation in a manner not within its guidelines. Often, for example, faculty members will have pet projects and will seek aid directly from the foundation. The foundation should be able to state that its priorities are set by the university, and the university should clearly back such a statement.

Involving the university in foundation activities

On the other hand, faculty and administrators need to realize that assisting the foundation is a legitimate and appropriate activity. Many gifts, especially substantial ones, are directed at some particular department or activity -- the fine arts museum, the cartography laboratory, the nutrition research center, or the business administration program, for instance. The university should encourage the appropriate persons representing such activities to accompany foundation staff on visits to potential donors. These representatives also should be willing to give special tours of facilities to show what the prospective gift can do. By helping the foundation, members of the university community learn about the role of the foundation. They can often suggest possible donors and, in time, may become substantial donors themselves through gifts or estates.

Involving the foundation in the life of the university

In addition to telling faculty and staff about the importance of the foundation to the university (by occasional references in speeches and publications), top university administrators should demonstrate their own high regard for the value of the foundation and its staff. They can do this by involving members of the foundation staff and board in appropriate university functions, especially receptions, brunches, meetings with distinguished visitors, and the like.

The university can make the housekeeping function of the foundation much easier if there is a clear understanding about space, utilities, fleet cars, duplicating, photograph labs, and so on. University services ought to be available to the foundation on the same basis as to a university department.

Universities also can provide cultural and recreational facilities that, although offered primarily to students, are also available to staff members. Making such facilities as dining halls, museums, libraries, gymnasiums, tennis courts, unions, and the like available to the foundation staff on the same terms as they are available to university staff members is a way of demonstrating that the foundation is carrying on an important university function. At the same time, it allows the foundation staff to become acquainted with members of the university community in an informal atmosphere. The ties of foundation staff members to their jobs and to the university are strengthened if they and their families participate in university activities and feel themselves to be a part of the university.

Building credibility for the foundation by involving it in the life of the university increases its effectiveness. Often a foundation is visited on short notice by an important donor or alumnus. It is important that the foundation be able to get nearly immediate access to some ranking university administrator if in the opinion of the head of the foundation it is necessary to do so. The foundation should use such a privilege sparingly. Yet it is difficult to think of a better way of demonstrating to the visitor the importance of the foundation and its activities in two or three minutes. In fact, a brief meeting and a warm handshake is frequently more successful than a drawn-out meeting between persons who do not know each other and one of whom has had no briefing about the subject of the meeting.

Keeping lines of communication open

Both the university and its foundation often overlook the importance of proper briefing about major donors and visitors. The foundation is responsible for providing the briefing, but university officials must recognize the importance of the information. Such a briefing, while it does not have to be extensive, ought to contain the highlights of the visitor's career and current interests in the university and, if possible, something about his or her undergraduate days, especially if an alumnus.

A great asset to a foundation is an extensive data bank with information about possible donors, their careers, and their student activities if they are alumni. The university should work with the foundation in developing such data, and each should have a clear understanding of what information the university can provide on the basis of its records and within the scope of privacy laws. This is an area where a well-run alumni association can be of great assistance, especially if it is willing to acquire and store information about former students who are not active members of the alumni association.

In a large comprehensive university many groups will be seeking funds for many purposes. Established research programs, for example, receive funds from the government and private foundations, and they also cultivate their donors on a regular basis. Other interests on campus are more likely to strike out in all directions, often with little research or guidance.

To avoid duplication and embarrassment a clearinghouse for fund raising may be necessary, especially where large projects and multiple donors are involved. Ideally, the chief administrative officer and the head of the foundation should perform this function. In many cases the foundation coordinates such solicitations and the chief administrative officer serves as the point of appeal.

Defining accountability

A principal asset of a foundation is its integrity. Those who are asked to contribute to it must feel certain that all funds are handled in the most prudent fashion and strictly within the terms of the gift. Both the donors and the Internal Revenue Service must feel confident that the foundation strictly maintains all appropriate legal and accounting procedures in order to protect the donor's reputation and tax-exempt status for the gift.

Since gifts from the foundation for any university purpose are gifts to the university, the university is obliged to enforce strict accounting and timely reporting of all such expenditures and balances. In most instances, the university will follow its established procedures and rules for the handling of other university funds. Even though sometimes funds are given for purposes for which state appropriations cannot be used, there should be strict accounting for each dollar spent.

When to say no

One of the less recognized tasks of a university-affiliated foundation is to turn down inappropriate gifts. Tax laws encourage giving to nonprofit organizations, but sometimes the gift-in-kind may not fit university needs or programs and could become white elephants or embarrassments. For example, paintings, specimen collections, and real estate are frequent gifts. If the donor is willing to have the gift sold, then the gift won't pose a problem. If the purpose is to maintain a monument, the university usually must find a way to decline tactfully.

Sometimes faculty members assure would-be donors that a department or program would like a farm or other property. If the donor stipulates that the gift must be kept, then it should be endowed. Thoughtful givers can usually understand this. The same is true for any large collection of art, books, or films. Faculty members should know to refer such gifts to the foundation. Often, complicated tax problems are connected with transfers of gifts-in-kind that the foundation handles in the normal course of its daily work.

In summary, a successful university-related foundation operation depends on a close working relationship between the university and the foundation administrations. This relationship is based on mutual support, respect for each other's roles, and goals and policies that they develop jointly.

CHAPTER 3

STATE UNIVERSITY-RELATED FOUNDATIONS

by Timothy A. Reilley
Vice President
University of Wisconsin Foundation

A brief history

Public universities came into existence in 1789 with the granting of a charter to the University of North Carolina. Its purpose was to provide an education to the many people who could not afford private college. Since that time, 501 four-year universities have been established, supported, at least partially, by state funds.

Over time, state subsidies of education decreased and the need for extra funding grew. Universities turned to the private sector as a source of funds. The private sector responded as it always had done with private schools such as Harvard and Yale. But the states then began, in some instances, to appropriate the funds raised from private sources as their own.

This happened in Kansas in the late 19th century when the state appropriated all private funds given to the University of Kansas. Once the state appropriated these gifts, it applied them to the university budget, withdrawing state funds in those areas for which the donors had designated gift funds. As a result, all private gifts became a part of the state budget allocation in Kansas.

In order to protect itself against this appropriation of gifts, the University of Kansas established in 1891 the Kansas University Endowment Association. The endowment association was a way of creating a private system within a public system. Effectively, it kept private gifts from becoming public budget funds and allowed the university to meet both the donor's specified intentions and its own needs.

University-related foundations are the same in concept as the endowment associations: They are a private system within a public system and function independently of the institution they serve. At the same time, they exist for the single purpose of serving their universities by raising funds for the advancement of these universities.

The status of foundations in the '80s

As a group, university-related foundations are less than 95 years old. In fact, only four university-related foundations existed before 1930. A substantial number of foundations appeared in the 1950s with the highest growth period occurring in the 1960s and 1970s. As of January 1980 the number of known four-year state universities having a related foundation was 339.

Recently, I surveyed all four-year state universities to learn about their fund-raising operations. Of the 420 universities that responded, 67 percent had some type of foundation. The rest had no development program, a development program with no foundation, or did not respond.

Foundations related to larger universities (20,000-plus students) tend to have been in existence much longer than foundations related to either medium-sized universities (5,000 to 20,000 students) or small-sized universities (less than 5,000 students).

Large-university foundations tend to be the only fund-raising units for the university, while foundations of medium and small universities usually are combined with development departments at the university. The basic reason for this difference appears to be the budget: foundations of large universities generate enough funds to be self sufficient whereas foundations of medium and small universities need university support.

Why form a foundation?

In most cases, the primary reason for establishing a foundation is to gain flexibility in the fund-raising operation. This includes such areas as organizational setups and systems, fund-raising programs, financial and budgetary operations, and the like.

It is not surprising that flexibility of operation is a frequent reason for having an independent foundation. Public universities are subject to state rules and regulations. Fund-raising activities, which differ significantly from academic activities, are constantly subject to state intervention. Budget and personnel cuts are always a threat at the time when the need for additional fund-raising activity is greatest.

Another popular reason for establishing a foundation is to create a private system for investment purposes. Again, state law usually controls the investment process of state monies rather rigidly, both in the manner of investing as well as the vehicles for investment. A private foundation can establish its own policies for investing funds under its jurisdiction. Above all, this investment policy should be guided by a stewardship to each individual donor's desire for doing something significant for the university to which he or she has contributed.

Other reasons for establishing a foundation range from avoiding personality conflicts or power struggles to acting on a philosophy of fund raising to generating a new board of directors for increased giving to the university.

Foundation systems

In some states, public universities are organized into a system with one central administrative office serving all the individual universities. Usually, the central office represents the state university system to the legislature, negotiates with the Board of Regents or like bodies, and oversees the policies affecting the system, among other duties.

Major university foundations within such systems occasionally serve a number of universities that may or may not have smaller foundations of their own. In no case do all schools within a state system belong to the one major foundation but, in those cases where there is a foundation system at least two belong and sometimes as many as four or five university foundations belong to the one foundation.

The major foundation is usually the recipient of the gifts for the smaller foundations and takes care of the receipts and financial records for each sister foundation. The major foundation also serves as reference in areas of expertise in fund raising and sets policies for the system.

Foundation boards of directors

Virtually all foundations have a board of directors. Since foundations are separate entities from the universities to which they are related, a board of directors will be the ultimate authority for policy and operational guidelines, including such functions as setting budgets and salaries, personnel appointments, overseeing the investment and distribution of funds, long-range planning, and so on.

As we shall see later in this chapter, some foundations have no staff. A board of directors for such a foundation would deal only with the investment and distribution of funds since the foundation apparently is established as an investment vehicle only.

Representation on the board of directors

As a general rule, corporate officials, women, and university administrators are represented on 75 percent or more of the board of directors of foundations related to public universities. Corporate officials are represented on boards of directors of university-related foundations more than any other category of representation.

Boards of directors in most instances have two general functions: They set the policies and monitor the functions of the foundation. In the case of university-related foundations, a third function is expected: The board contributes capital funds for the advancement of the institution the foundation serves. It is understandable then why corporate officials are dominant on boards of directors of foundations. Corporate officials are experts in management and usually control great wealth, both corporate and personal.

Women, too, are on the boards of directors of university-related foundations for several reasons. In many cases, they are corporate officials as well as interested parties in the work of foundation. Also, studies have shown that most of the personal wealth in the world is held by women. In addition to these reasons, women are often very involved in fund raising in their local communities.

A basic reason for having university administrators on the board is that they provide a direct interface between the foundation and the university. This allows the university control over the foundation and, at the same time, lets it present the needs of the university to the board.

To generalize from this study, it appears that eight out of 10 boards of directors of foundations related to a university will have corporate officials and administrators on them, seven out of 10 will have women on them, four out of 10 will have faculty on them, three out of 10 will have minorities on them, and two out of 10 will have students on the board.

Staffing of the foundation

A number of foundations are merely "convenience" vehicles and have no staff members, neither professional nor support. These "convenience" foundations appear to exist strictly as investment vehicles or, in some cases, they are used for "special purpose" funds.

The majority of foundations related to small-sized and medium-sized universities have professional staffs of one or two persons. This contrasts with the foundations of large universities that have professional staffs of between six and

10 people. The secretarial/clerical staffs of foundations tend to number slightly more than the professional staff.

Organizational structure of foundations

The relative majority of foundations are organized in a structure that has a board of directors as ultimate authority, an executive director reporting to the board, and associate and assistant directors reporting to the executive director. A variety of other organizational patterns of foundations exist with different layers of reporting relationships.

Studies have shown that foundation and development offices have myriad titles for the same functions and myriad functions for the same title. The one who heads the development office at a university, for example, may be the president, assistant to the president, vice president for finance, vice president for development, vice president for alumni and development, and the like. Foundations have almost as many, if not more, titles for the head of the foundation, including chairman or chair, vice chairman, president, vice president, executive director, director, and the like. In many cases, foundation structures are unique.

Foundation budgets

Almost 60 percent of all foundations related to universities have a fiscal year beginning July 1 and ending June 31. Another 20 percent begin the fiscal year January 1 and end December 31. Other foundations have a variety of fiscal years.

Foundation budgets generally are related to the size of the university that the foundation serves. Foundations of medium-sized universities budget an average of five to six times more funds than foundations of small universities. Foundations of large universities budget eight or nine times more funds than the foundations of small universities.

The following chart shows the average budget for foundations related to small, medium, and large universities in 1977 and an average projected budget for 1983 for the same foundations based on a projected annual growth of 10 percent per year.

ACTUAL AND PROJECTED BUDGETS

	SMALL	MEDIUM	LARGE
1977	$33,000	$175,000	$285,000
1983(projected)	58,460	295,380	504,893

Foundation investments

Some foundations are formed specifically for investment purposes, i.e., they are to invest endowment monies for current and future use. Some have no staff and only serve as an investment vehicle.

Most foundations, after the funds are raised, hold a certain percentage of these funds as permanent endowments and immediately transfer the other funds to the university. As a result, permanent endowments grow on a yearly basis.

The amount of funds to be invested depends on the size of the university to which the foundation is related. The following chart shows the average monies invested for foundations related to small, medium, and large universities in 1977 and an average projected investment for 1983 for the same foundations, based on an annual growth rate of 8 percent per year.

ACTUAL AND PROJECTED AVERAGE INVESTMENTS

	SMALL	MEDIUM	LARGE
1977	$523,000	$2,273,000	$13,235,000
1983(projected)	829,933	3,606,964	21,002,280

Foundation fund-raising programs

Foundations of small universities predictably have the least participation in fund-raising programs and those of large universities have the greatest.

Virtually two-thirds of all foundations have an annual fund program. This is basically a direct mail program to alumni and friends on a yearly basis. Most fund raisers consider the annual fund to be the basis of all fund raising. In some foundations, "annual fund" is a general term for all types of fund raising in which the foundation engages. In other words, these foundations report all gifts of whatever type under the annual fund. In most foundations, however, the annual fund is a segregated fund comprising only those gifts generated by specific mailings.

Whether or not a foundation has a deferred giving program seems to be related to the size of the university to which the foundation is related. Over four fifths of the large-university foundations have deferred giving programs and two thirds of foundations of medium-sized universities have similar programs. In contrast, less than half of the foundations of small universities have deferred giving programs.

The foundation has to have vehicles to which the deferred gifts can be given in order to have a full program of deferred giving. Vehicles such as pooled income funds, unitrusts, annuity trusts and the like are necessary for the reception of deferred gifts outside of ordinary bequests. Some of these are complicated to manage, and someone must monitor the plans constantly. In foundations of one or two staff persons this becomes difficult.

Corporate solicitation is difficult for state universities because, historically, corporations have a policy of funding only private universities. In recent years, however, corporations have shifted to more giving to public universities. Over three fifths of all foundations now solicit corporations.

The solicitation of large private foundations is another popular fund-raising program in which over three fifths of all public university-related foundations engage. Almost every state has hundreds of private foundations and these plus the many larger national private foundations are the special targets of fund-raising programs of public university foundations.

Special-gift fund-raising programs include those solicitations for president's clubs, special class funds, special project funds, and the like. Over three fourths of all foundations have special-gift programs.

Athletic fund raising is the program among all fund-raising programs with the least percentage of foundation participation. About three fifths of the foundations of large universities have athletic fund-raising programs while only half of the foundations of medium-sized universities and about one third of the foundations of small-sized universities have them. The reason for the lower percentage of participation in athletic fund raising may be that athletic departments do the fund raising without foundation involvement.

Foundation donor numbers

As expected, donor numbers vary with the size of the university to which the foundation is related. Overall donor numbers do not grow as rapidly as do dollars received or budget spent. The following table shows the average donor numbers for foundations related to small, medium, and large universities in 1977 and a projection of those numbers in 1983. The projected growth is based on a total rise in donors of 10 percent between 1977 and 1983.

ACTUAL AND PROJECTED AVERAGE OF DONOR NUMBERS

	SMALL	MEDIUM	LARGE
1977	579	3,506	11,278
1983(projected)	636	3,856	12,405

Foundations of medium-sized universities have about six times the number of donors of small universities; large-university foundations have about 19 times the number of donors of small universities and about three times those of medium-sized universities.

Foundation dollars raised

Public universities are in the fund-raising business to stay. Over the past five years they have increased their share of funds from private sources dramatically. Under severe financial stress, public universities have turned more and more to their foundations as suppliers of extra funds for those programs the state will not fund.

The following chart shows the average dollars raised for foundations of small, medium, and large universities in 1977 and, presuming an annual growth of 10 percent per year, an average projected dollars raised in 1983 for the same foundations.

AVERAGE DOLLARS RAISED AND PROJECTED DOLLARS RAISED

	SMALL	MEDIUM	LARGE
1977	191,000	926,000	6,188,000
1983(projected)	338,367	1,640,464	10,962,418

Foundation policies

If foundations were state entities like the universities to which they are related, more than likely all would report written policies on their investments. This is not the case, however, with university-related foundations, which are private corporations.

About half of the foundations of small universities have written policies on investments, operations, and general fund raising. One fifth have written policies on deferred gifts and two fifths have them on expenses.

Three fourths of the foundations of medium-sized universities have written policies on investments and operations, three fifths on expenses and general fund raising, and over half on deferred gifts.

Among foundations of large universities, the percentage of those with written policies is much larger. Two thirds have written policies on expenses, operations, and general fund raising; three fourths on deferred gifts; and nine out of 10 have written policies on investments.

Four-year state university-related foundations today are vital and dynamic organizations varying in great degree from one another. In one area they are all the same, however: They exist to serve the institutions they represent. Through their organization, foundations obtain the kind of gifts that will advance the educational, research, and public service functions of their institutions.

Chapter 4

THE FOUNDATION BOARD OF DIRECTORS AT THE PUBLIC INSTITUTION

by Michael J. Worth
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The first volunteer group in every charitable institution is the governing board. The governing board sets the leadership and functional criteria for others to follow. -- Arthur Frantzreb, Handbook of Institutional Advancement

It is axiomatic that success in all development responsibilities is a function of board strength. -- Jake Knudsen, Trustee's Role in Advancement

Fund-raising authors, experts and consultants who have studied development programs at colleges and universities have found that successful fund raising is difficult or impossible without the active leadership of a committed governing board of trustees. But for the public institution, this leadership may present special problems.

Boards of trustees at private colleges and universities are self-perpetuating. Existing members select new members, according to their own criteria. And in nearly all cases, trustees select new members at least in part for their potential as donors and skill at fund raising on behalf of the institution.

On the other hand, the governor or legislature of the state appoints the regents and trustees of public colleges and universities. In some cases, the public elects them. These trustees are selected for a variety of good reasons, for example, because they are skilled at representing the public interest and speaking for the institution in the political arena. However, fund-raising ability usually is not a factor in their selection.

Although the portion of the total revenue coming from state government has declined for most public colleges to below 50 percent in many cases, government is still the largest single source of funds. Therefore, public university governing boards must continue to devote most of their attention to matters other than raising funds in the private sector.

The results of a study I conducted, of public university regents, reflects this non fund-raising orientation. I found that less than 25 percent of the members of such boards participate in any activity related to fund raising on a regular basis, and only 20 percent of public governing boards have a committee concerned with private support. These results were consistent with those of other studies conducted over a period of many years.

In addition, the growth in many states of consolidated governing boards with responsibility for several institutions may make it even less likely that board members will engage in fund raising. Members of consolidated boards must maintain a neutrality among the several institutions they govern, making it difficult for them to work as advocates for any one campus.

Yet declining state support and the growing responsibilities of public colleges and universities dictate a need for increased private support. How can the public institution obtain the board leadership experts say is needed to achieve this support? The institutionally related foundation is the answer.

The foundation board of directors offers a way for the public college or university to develop a board of prominent volunteers to lead its fund-raising effort. The board also gives its members the meaningful involvement that is necessary to encourage their enthusiastic service.

Size and composition of the foundation board

My study of 100 public colleges and universities found that only 5 percent have boards of fewer than 10 members. These are likely to be "flow through" foundations, which are independent corporations but are highly integrated with the operations of their host institutions. These same boards almost entirely comprise members of the institution's administration and governing board. Such foundations may be convenient accounting systems for processing private gifts, but they generally do not engage in active fund raising.

Another 34 percent of the foundations have boards of 10 to 20 members; 26 percent have 21 to 30 members on the board; and 34 percent of the foundations have boards with more than 30 members.

There is no hard-and-fast rule concerning the size of any board, but some general guidelines apply. The board must be large enough to include representatives of the various sources from which support will be sought and to involve the leading donors and volunteers of the institution. But the board must stay small enough to ensure good management, to enable the president and development officer to maintain involved communication with all members, and to give each member the sense that his or her contribution is vital.

If the foundation board is to lead the fund-raising effort, then careful consideration of who should serve on that board is essential. The same study found that the president of the college or university serves on 89 percent of all foundation boards, and 55 percent of the boards include members of the institution's governing board of regents or trustees.

In addition, faculty are represented on 35 percent of the foundation boards; students are included on 18 percent; alumni serving as official representatives of the alumni association are found on 61 percent; and administrators other than the president serve on 65 percent of the foundation boards.

Any one of these groups is generally a small minority of the board, however, and, for most foundations, all of these groups together comprise less than half of the board of directors.

The majority of most foundation boards are people from outside the college or university itself--alumni, friends, business and community leaders, and others--serving as individuals rather than representatives of any particular constituency. Such individuals are found on 91 percent of all foundation boards and comprise a majority of the directors at 79 percent of the foundations I studied.

The composition of the board is a good indication of the foundation's purpose and function. Foundations whose boards are dominated by the president and regents are probably flow through foundations, as discussed above. Foundation boards that largely comprise faculty members are likely to administer a large amount of sponsored research funds.

The fact that most foundation directors are individuals from outside the institution reflects the one overriding purpose of most foundations--fund raising. These board members are selected primarily for their ability to contribute toward that mission.

The president and regents as foundation directors

While presidents and regents of institutions commonly serve as directors of their foundation, the advisability of this practice is debatable.

Some believe that interlocking boards promote communication between the regents and the foundation directors, ensuring the foundation's pursuit of goals consistent with the priorities and policies of the institution. Others feel that having regents on the foundation board may weaken the foundation's usefulness as a fund-raising vehicle.

A distinction must be made between having regents on the foundation board as individuals and establishing ex officio positions on the board that must be held by regents. My study found that 33 percent of the foundation boards have regents serving in ex officio capacities and another 22 percent have regents serving as private individuals.

Some states, insisting on complete separation of the foundation from its host institution, prohibit interlocking boards. But in those that don't, there is no reason why regents who are wealthy or accomplished fund raisers, or who are experts on investments, should not be asked to join the foundation board as individuals.

There is no assurance, however, that individuals selected for their ability to represent particular groups, including the regents, will possess fund-raising skills. Ex officio memberships may therefore bring onto the board individuals who are not in a position to help the foundation pursue its primary mission.

Having official representatives of the institution's governing board on the board of the foundation also could bring pressures to include other groups, such as students and faculty. This could lead to a constituent board, whose members have as their primary responsibility protecting the interests of the groups they represent. Such a board could become more concerned with slicing the pie than with working to increase gifts to the foundation.

The president's service as a member of the foundation board of directors also raises questions. Again, a distinction should be made between ex officio membership and membership as an individual.

At 47 percent of the foundations included in the study, the president serves on the board in an ex officio capacity as the president, and has a vote. At 16 percent of the foundations, the president serves ex officio as a foundation director, but does not vote. And 26 percent of the time, the president serves on the foundation board in his or her individual capacity, not as the president.

Some argue that the president must be a member of the foundation board in order to participate in the fund-raising effort and to ensure that board members are informed concerning the institution's mission, priorities, and goals. There can be no question that the president's involvement in fund raising and his or her leadership in defining priorities is essential to success. This involvement is an axiom of fund raising, whether an independent foundation exists or not. But the president's relationship to the independent foundation involves some special legal and moral obligations.

The foundation board of directors, as a legal entity, functions in a fiduciary capacity, representing the interests of private donors. The foundation board must ensure that gifts are used according to the donors' instructions. The president, as an employee of the institution, must be accountable to the directors for the use of gifts made available through the foundation.

For this reason, some argue that having the president serve on the foundation board as a voting member may raise conflict-of-interest issues. To avoid any such questions, it is probably best that the president serve as a member of the board with a voice, but not a vote.

Decisions concerning membership of the president and regents on the foundation board of directors will have to reflect these considerations as well as the history, tradition, and legal circumstances of each institution and state. But if the foundation is to be successful as a fund-raising vehicle, it is essential that institutional representatives be kept to a small minority of the board and that foundation directors be given a high degree of independence and authority.

Building the foundation board of directors

Once an institution decides to have a strong, independent, active foundation board, how can it ensure that such a board is developed and maintained?

Many boards establish written criteria for recruiting foundation directors. Writing guidelines may help the board gain consensus on the type of individuals it seeks. In addition, established criteria may protect against pressures to move toward a constituent board or to select individuals for reasons other than their ability to contribute toward the foundation's mission.

Foundation executive directors responding to my study indicated that commitment to university goals, position of influence in the business community, and personal income and wealth are the three most important criteria applied in the selection of their foundation board members. This clearly indicates that the primary function of their foundations is fund raising and that directors are selected for their potential as donors or for their access to new sources of support.

Since the foundation may invest and manage funds in addition to raising them, individuals who are experienced in financial matters, such as stock brokers, bankers, and accountants, are wise additions to the board. As with any group of volunteers assembled for fund raising, the board should include major individual donors as well as officers of corporations, foundations, or other sources from which support is to be sought.

The foundation's charter and by-laws should stipulate the methods by which board members are selected. My survey revealed that approximately 40 percent of the boards are self-perpetuating, that is, existing members elect the new members. Another 40 percent are elected by a larger general membership of the foundation, and the remainder use a variety of other methods.

Whatever may be the formal mechanisms, foundations are likely to follow informal procedures. At 29 percent of the foundations, the executive director indicated that board members in reality serve at the pleasure of the university or college president, although the board formally elects them itself.

While it is understandable that the president be consulted concerning prospective foundation directors, giving the president too great a voice could undermine the foundation's independence.

On the other hand, other writers recommend very tight control over the foundation board membership by the governing board of the institution. My study found that only 4 percent of foundations must submit new directors to the institution's governing board for approval. Indeed, such a close relationship might raise legal problems concerning the foundation's independence that could defeat the very purpose for which the foundation was created. In addition, a foundation board that is subject to such close supervision by the board of the institution is unlikely to prove attractive to the prominent volunteers it needs and wants in order to succeed in its fund-raising mission.

The most common term of office for a foundation director is three years, this being the case at 63 percent of the foundations surveyed. Only 4 percent serve terms of less than three years. At 68 percent of foundations, directors may serve consecutive terms without limit; they are limited to a maximum number of terms at another 20 percent. And at 10 percent of the foundations, directors must leave the board after so many terms but are then eligible for re-election after a specified time, such as one year. This last arrangement has a great deal to recommend it.

No matter how great the care taken with selecting foundation board members, mistakes will sometimes occur. In addition, circumstances, attitudes, and needs of the foundation may change over time. It is therefore helpful to have a face-saving way of ridding the board of inactive or ineffective members when the need arises.

Requiring members to go off the board after so many terms creates a graceful way of easing them out. The board always can invite good members back after the required year off, while it can allow poor members to fade away with minimal embarrassment to everyone.

Whatever specific approach it takes, the board must evaluate the performance of its own members and must devise a means for eliminating the deadwood that may develop from time to time, even on the strongest boards.

Only 44 percent of the foundations included in my study provide formal training or orientation for new members of their boards. This is a better record than that of the governing boards of the same institutions, only 37 percent of which provide such training. But this is an area that needs improvement for boards of all varieties.

There is no reason to believe that prominent individuals, successful in their own fields, will automatically understand the requirements of service of the foundation board of directors. There is even less reason to believe that new board members will have a deep understanding of the institution and its problems, even though they may have been associated with the college or university in other volunteer capacities.

The role of the foundation board of directors

Foundation board members, or any volunteers, are unlikely to be motivated to sacrificial giving, or to ask the same of others, unless they have developed a sense of identification with the institution or foundation that makes its problems seem like their own. This sense is most likely to grow from a bona fide responsibility for the institution's future.

Public institutions commonly employ various advisory boards as a way of involving outside individuals in the life of the college or university. These are important boards that can be very helpful in many ways including fund raising.

Yet their members have no legal responsibilities. Indeed, the president or the institution's governing board, who have the final responsibility for all decisions, may not always heed their advice. A subtle but important difference exists between the volunteer's role and that of foundation directors who are responsible for raising and managing resources, and who have a voice in their use.

This is why the foundation provides a unique opportunity for the public college or university to attract prominent volunteers. These individuals may view the important responsibilities of foundation directors as more challenging than those of boards that have no real authority.

If institutional representatives dominate the foundation board, either formally or informally, outside members may feel that they are second-class citizens, a status not likely to attract the most influential volunteers. If foundation directors feel that their role is merely to ratify decisions of university administration and governing board, then they are unlikely to find service on the foundation board to be among their most satisfying experiences.

What then is the specific role foundation boards play? My study examined the functions the foundation directors perform in the private support program and in managing the foundation itself.

Seventy-six percent of foundation boards are involved in the selection of the foundation executive director; 67 percent participate in the selection of other professional staff of the foundation; 77 percent participate in the approval of annual fund-raising goals and purposes; 87 percent are involved in setting the foundation's annual budget; 84 percent have a role in determining the allocation of unrestricted gifts received by the foundation to programs or units of the institution; 80 percent participate in determining operating policy and procedure for fund raising; 76 percent have a hand in designing broad policy concerning private support; and 67 percent of the foundation boards would be involved in a decision to launch a major campaign.

The foundation's mission--fund raising--must be kept clearly and constantly in focus. Boards of regents and presidents are responsible for running institutions. Foundation boards are responsible for securing and managing private resources to support institutional programs. Both boards must understand, respect, and observe their roles.

The charter and by-laws of the foundation may define its role. The foundation and the institution may develop policies that further spell out foundation functions. It is important that foundation directors understand how the foundation serves the institution and discuss roles and responsibilities as part of the orientation of new board members.

But whatever the policy that defines the foundation's role, its board and the institution should develop it jointly. Policy that is imposed upon the foundation as a way to pin it down or tie its hands, is useless. This approach demeans the foundation board, limits its independence, and may dissipate the spirit of partnership so vital to success.

In my study of foundation board activity, foundations seldom were involved in areas generally considered to be within the purview of the institution. For example, only 28 percent play any role in determining the mission and priorities of the institution, and only 22 percent are involved in lobbying the state legislature on behalf of the institution's budget. Foundation directors who are involved in these activities may be those who also serve on the institution's governing board.

The study therefore revealed a clear distinction between the functions of the foundation board and those of the governing board of regents. Regents are generally uninvolved in any aspect of fund raising except, in some cases, decisions concerning broad policy and major undertakings, such as launching a campaign. Foundation directors, on the other hand, are seldom involved in setting policy for the institution or concerned with sources of support other than private gifts.

If the two boards are clearly separate, a new question arises. A sense of identification with the institution is necessary to motivating successful volunteers. How is this sense to be developed among the directors of the foundation?

The need for leadership

Foundation directors must have an intimate understanding of problems and needs that affect the central purpose of the institution they serve. Yet, they must maintain their focus on their proper fund-raising role. This requires a balance that only skillful leadership on the part of the president and the development officer responsible for the foundation can achieve.

In most cases, the president is the primary link between the foundation and the institution, and the responsibility for leadership is unavoidably his or hers.

Communication is the essential tool in this ongoing process. Many institutions hold joint foundation-institution board meetings, retreats, and social events. These help to foster communication, develop understanding, and encourage a cooperative approach. In addition, some foundation boards and institutional governing boards regularly exchange minutes and reports.

A few institutions have standing joint committees on private support, comprising the president and representatives of both the foundation and institutional boards. Such a committee may develop policies concerning fund raising and the acceptance of gifts and may review fund-raising plans. Where the foundation is highly independent, with the executive director employed by the foundation itself, communication may be helped by having the executive attend meetings of the president's staff.

A variety of such mechanisms help maintain communication between the foundation board and the board of the institution. They involve foundation directors as full partners in the college or university but maintain the proper balance of roles. But these mechanisms are no substitute for the professionalism of the development officer responsible for the foundation and the leadership of the president.

Whether employed by the foundation, the institution, or both, the development professional must always deal forthrightly with the president, members of the institution's governing board, and foundation directors. He or she must never become the instrument of one against the other. And this person must always act in the best interests of the college or university, which the foundation exists only to serve.

The president cannot control or dominate the foundation board without demeaning its importance and discouraging top-rank volunteers from joining it. But the president can lead the board by articulating a vision of the institution's future that inspires prominent alumni, business leaders, and important friends to play a part in achieving it. In the final analysis, it is the quality of that vision that will determine the success of foundations and institutions of higher education.

Chapter 5

OPERATING POLICIES FOR INSTITUTIONALLY RELATED FOUNDATIONS

by Patricia P. Purcell
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A university-related foundation is created for a variety of reasons. Among the most important of these are to gain the impact of a private, volunteer-based force for fund raising and to maintain administrative flexibility. This chapter will concentrate on the latter. Since a foundation is a fully independent organization, freed from state bureaucracy, it creates its own rules and regulations, definitions and standards. This is a powerful responsibility; ultimately, i rests with the board of trustees.

Protecting the best interests of all parties

While a foundation allows for flexibility in the administration of private support, it must be organized to ensure consistent, responsible, and legal operations. Policies and procedures must be established early in the life of the foundation to serve the best interests of four entities:

1. The university. The only reason the foundation exists is to serve the university. All policies and procedures should be consistent with those of the university and should reinforce university policies and procedures.

2. The donor. The foundation must ensure that all gifts are well managed and expended in keeping with donors' intentions.

3. University personnel. The foundation must treat all who deal with it in a consistent and fair manner. Foundation staff interests and biases should never affect the administration of the foundation.

4. The program. The foundation must observe the highest standards of performance, accountability, and uniform accounting procedures. The board must adopt the policies that form the laws of the foundation, though the staff administers the policy. The staff creates the procedures or the guidelines under which the foundation functions, but it may share important procedures with the board or its management committee.

All foundations exist to execute three primary activities: soliciting, receiving, and managing private support. The following discussion concentrates on those functions and the policies and procedures needed to implement them properly.

Soliciting gifts

In some universities the development office and the foundation are one and the same; in others, they are totally distinct. And in still others, the two offices overlap to varying degrees. Regardless of the administrative structure, all foundations need policies that describe how gifts may be solicited, by whom, and for what purposes. A set policy prevents excessive solicitations of the same constituency and outlines a special, coordinated approach to major donors. The policy should define constituents (for example, who is considered an alumnus, parent, friend) and level at which they may be solicited without special clearance (up to $1,000, etc.). It should clarify any rules governing corporate and foundation solicitations.

Defining gifts

Setting forth a series of definitions about gifts can help the foundation administer them in a consistent manner. Gifts can be categorized by the donor's intentions for the gift's use. The following categories are most common.

1. Unrestricted: A gift given to the institution without any stipulation as to its use. Such a gift is used at the discretion of the chief executive officer.

2. Designated: A gift directed to a specific school or department (for example, to the law school) but that has no stipulation made as to its use. Such a gift is used at the discretion of the head of that department or school (for example, the dean of the law school).

3. Restricted: A gift given with the donor's stipulation of the specific use of the gift. Examples of restricted gift purposes are listed below.

For students

Honor scholarships
Financial-aid grants
Loans
Work-study grants
Graduate fellowships
Research fellowships
Internships
Achievement awards
Independent study
Student activities

For faculty

Distinguished professorship
Professorships
Visiting artists/scholars
Lectureships
Teaching assistantships
Publications funds
Professional travel funds
Special research
Achievement awards/honors
Sabbatical leaves

For departments/schools

- Funds for excellence in teaching
- Program innovation
- Library/publications acquisitions
- Collections
- Research
- To name departments/schools

For the physical plant

- To name buildings, floors, laboratories, residence rooms, offices, fixtures, and so on
- To renew or recycle buildings
- For new buildings
- Endowment for maintenance
- Campus beautification

Additionally, all gifts are categorized as to their permanence. In general, they are either intended to be used in the near future and thus are outright gifts, or they are to be kept in perpetuity earning interest that may be spent and are therefore endowment gifts.

Gifts of endowment

There are three categories of endowments and it is important that the board adopt a policy recognizing these definitions. The National Association of College and University Business Officers' *Guide to College and University Business Administration* suggests the following:

1. Endowments (known as pure endowments or permanent endowments) designated under the instrument creating the fund are not expendable; they are to be kept in perpetuity.

2. Term endowments are managed like endowments but all or part of the principal may be expended after a stated period of time or upon the occurrence of a certain event.

3. Quasi-endowments are created by the board (rather than by the donor's instruction) and thus, at any time, may be totally expended by the board.

Bequests and deferred gifts

Bequests and deferred gifts are a growing source of support. The foundation must establish and write down policies and procedures for encouraging and administering these major gifts. It is important to define the types of gifts the foundation can receive from among the following:

- bequests
- charitable remainder and charitable lead trusts
- pooled income funds
- gift annuities
- life insurance

Contracts and grants

Each institution must decide what, if any, grants and contracts the foundation will accept and administer and how the institution will carry out its policy. This is a knotty problem for most institutions. You must resolve the relationship between development function and the traditional university office of sponsored programs or of contracts and grants.

At Maryland, the policy states:

> Monetary gifts not specified as support for specific research outlined in grant applications may be directed to the Foundation. The Executive Director of the Foundation, in consultation with the Chancellor, will determine when this exception is applicable.
>
> Grant and contract funds may be directed to the Foundation if they are available prior to the time that research or other work under the grant or contract will begin. The principal deposited, less interest earned, must be transferred to appropriate UM accounts at the beginning of the research or work. The Executive Director of the Foundation and the Director of Finance and Business, UM, will confer to decide which such deposits should be accepted by the Foundation and when they should be transferred to UM.
>
> In special cases, the Chancellor may approve deposits of grant and contract funds to the Foundation for use by the Foundation to purchase items which cannot be obtained through standard UM purchasing within the time restraints of the grant or contract involved.

You must delineate the foundation's role and the grant office's role so that faculty know with whom to deal and when. This is in keeping with the best interests of the university. At the same time, clarify who within the institution, is responsible for deciding whether or not a grant belongs in the foundation. At Maryland, the grants officer, not the foundation staff, makes this decision.

Minimum funding requirements

At Maryland, the governing board of the institution and the board of the foundation jointly subscribe to a list of minimum funding requirements. The policy states the percentage of interest UM will expend annually from endowments and the amount (or percentage of cost) required to name buildings, sections of buildings, rooms, and major pieces of equipment. The list below suggests those items for which you should establish minimum gift levels.

Funds for general support

President's Fund, Dean's Fund
To name a school or college, department or division
To name an existing or future building
To name rooms or features of buildings

Funds to support faculty

Chair
Professorship
Fellowship
Lectureship
Funds for research, travel, faculty development

Funds to support students

Graduate fellowships
Merit scholarship
Scholarship
Loan fund
Award or prize

Funds to support programs

Library collection, book funds
Equipment purchase
To name a research center, institute, or bureau
To name a laboratory
Community service, cultural programs, publication fund

Receiving gifts

Establish (and simplify) procedures for receiving gifts and communicate them to all members of the faculty and staff to whom gifts might be given. All gifts need to be reported and transmitted to the foundation office in a timely manner accompanied by all original correspondence relating to the gift. Designate responsibility for gift acknowledgment and thanks. You should retain the following information with the gift, depending on its type.

1. All gifts. Donor's name, address, affiliation, amount of gift, date received, designation, restriction and/or purpose.

2. Restricted gifts. Acceptance of gifts imposes a legal obligation to comply with the terms established by the donor. Thus the terms of each restricted gift must be clearly set down and communicated to the person ultimately responsible for administering the gift. A policy needs to be established which indicates kinds of gifts to be refused if the purpose is inappropriate (for example, if the gift does not serve the best interest of the university, if it is clearly to support a commercial endeavor, or if the gift would obligate the university to undertake responsibilities, financial or otherwise, that it may not be capable of meeting for the period required by the terms of the gift).

3. Endowment gifts. Administration of endowment and similar funds requires maintenance of a register of all such funds. The register should include such information as:

* the names of the donor and members of his or her family, with brief biographical comments;
* the amount and date of donation;
* identification of the type of fund;
* designations of, or restrictions on, use of the fund or its earnings;
* identification of the source of such limitations (donor, grantor, or governing board);
* limitations on investments; and
* reference to formal acceptance and other actions by the governing board.

A standardized memorandum of understanding should be created and used throughout the university for all gifts of endowment and for restricted gifts requiring special administration. In addition to the above information, the memorandum should have four other sections:

1. Donor recognition. A description of what will be "named" in return for the gift; what publicity is appropriate; and so on.

2. Administration. A clear designation as to who is responsible for expending the funds.

3. Reporting. An explanation of the type of report that will be provided to the donor and the timeframe.

4. Permanancy (or escape) clause. Language to permit the foundation board to assign different, alternative, or modified but related use of such funds as conditions dictate in some distant future.

Handling gifts

Gifts come in various forms and policies must be established to define how each will be handled.

1. Cash. Most gifts are cash or checks and will be handled according to the procedures suggested above.

2. Securities. There are several ways of transferring securities and the preferred procedure should be familiar to all staff.

3. Gifts-in-kind. Art objects, equipment, life insurance, real estate, and so on should be reviewed with special care to ensure that acceptance will not involve financial or other

obligations disproportionate to the usefulness of the gift. Consider the cost of maintenance, cataloging, delivery, insurance, display, and any space requirements for exhibition or storage.

When the donor gives a gift-in-kind with the intention of receiving a tax reduction, it is the donor's responsibility to obtain an appraisal of the gift for tax purposes.

A "Deed of Gift" form should be instituted so that all gifts-in-kind are processed in a consistent manner. It should be clear in the terms of the gift whether the gift is to be retained by the institution or may be sold.

Managing gifts

There are numerous procedures and policies that must be established in order to manage the assets of the foundation. Since the management of each foundation reflects its uniqueness, the following list suggests only the kinds of policies needed, not their content.

A. Management of Permanent Assets

1. Endowed funds
   * Expenditure policy (percent of earnings to be spent annually)
   * Investment guidelines (who the board authorizes to spend the funds, instructions to the portfolio manager)
   * Stewardship requirements

2. Land and buildings
   * How the foundation will manage gifts of land
   * The types of land and/or buildings the foundation will accept
   * How the university might make use of the land and buildings
   * How these assets can be made gifts to the university

3. Patents
   * Whether the foundation can hold patents
   * Guidelines for patents

4. Divestiture
   * Policy as to who can sell assets of the foundation, how, and under what circumstances

B. Management of Operating Accounts (outright, unrestricted, and restricted gifts)

1. Establishing departmental accounts
   * How accounts are established and by whom

2. Interest bearing accounts
   * The kinds of accounts that will accrue interest, under what circumstances, and how much

3. Expenditures
   * Who is authorized to spend from foundation accounts, how, and where
   * How accounts are monitored
   * The levels of expenditures that require designated signatures
   * The level at which expenditures require board approval
   * The person responsible for reporting to donors on use of gifts

C. Foundation Operations

1. Annual budget
   * Those expenses to be considered the cost of running the foundation

2. Audit
   * The requirement of a yearly audit by an outside accounting firm

3. Purchases
   * The person authorized to acquire equipment and so on through the foundation
   * How and when equipment may be made as gifts to the university
   * The kind of insurance to be maintained on things owned by the foundation (thus not covered by university insurance)

Summary

A foundation's relationships, with the institution it was created to serve and with the donors who make its existence viable, are extremely complex and fragile. Carefully constructed policies and procedures, created thoughtfully and in the abstract, provide the framework in which the foundation can florish and prevent erosion of its precious relationships.

Chapter 6

CONSTITUENCY-BASED FUND RAISING THROUGH AN INSTITUTIONAL FOUNDATION

by Charles G. McCord
President
University of Colorado Foundation

Constituency-based fund raising is a strategy that has been around for many years. Constituent groups of an institution may include alumni, friends, parents of current students, faculty, staff, students, corporations, foundations, and legislators. These groups are sufficiently different from one another to warrant distinct fund-raising approaches. The experience of colleges and universities across the country has proven the success of the targeted approach.

Now, institutions are further refining the techniques of constituency-based fund raising. As the size and needs of various schools or departments within an institution grow, fund raisers are recognizing the special ties constituents may have to the academic unit with which they are associated. Thus, a university's law school or business school or college of agriculture may identify its own constituents and may build a base for specially targeted communications.

The rapid advancement of recordkeeping technology over the last decade has produced increasingly sophisticated methods for defining constituent groups. Let's look at just one major constituent group to illustrate how far we've come.

First, we had the alumni constituency. If we were lucky, we could differentiate alumni by class year. Now we are able to group alumni by class; by geographical location (down to streets!); by undergraduate degree, graduate degree, school or college within the university, and major area of study; by clubs, social organizations, athletic participation, and campus living unit; and on and on. When we add in the giving history of a donor we further increase the number of ways we can segment a constituent group.

All this information has very direct and important implications for how we organize our fund-raising efforts through institutionally related foundations. The manner in which each foundation is governed, organized, and operated is reflected in the history and laws governing the state and institution it serves. This in turn will dictate the extent to which any foundation may or may not pursue a constituency-based fund-raising approach.

One characteristic of the most successful college and university fund-raising programs is that they have defined and segmented their constituent groups and targeted programs to communicate the needs of the institution to each group. The assumptions on which increasingly sophisticated constituency-based, fund-raising programs are founded are sound. Some of these basic assumptions are:

* Gift potential is greatest where donors have the strongest feeling of affiliation.

* Individuals, particularly alumni, will continue to represent the major source of private support and the greatest potential for increased private support for colleges and universities.

* The quality of volunteer leadership and involvement has a direct and positive correlation to a successful fund-raising program.

* A strong and aggressive annual fund provides the base upon which to build a successful major gifts program.

These assumptions do not apply equally to every institution. Yet they are the foundation on which public and private universities have built the most successful programs. The key is defining the constituent group to take advantage of its strongest feelings of affiliation and developing opportunities for active involvement.

Developing the program

In order to develop a constituent-based, fund-raising program, foundation officers must look at the organization of the college or university they serve. They must decide where the strongest ties and interests exist and then define the constituent groups and make staffing assignments.

In many cases, these groups will be the alumni and friends of the professional school or college unit within a university, departments or programs within an arts and sciences division, or campus-wide units such as athletics, the library, the museum, and so on. The groups make up a constituency base that allows you to involve volunteers as well as the academic administration and faculty of the defined unit in the progress of the department or school.

Next, develop a clear set of operating policies and procedures. These will cover how to establish constituency groups or "funds" and how to conduct the programs associated with them.

Setting up the operating structure

You will find that the constituency-based funds essentially fall into three categories:

- *The foundation annual fund.* This is a general-purpose fund that includes all alumni not assigned to another constituency fund. It is also the repository for other college constituency funds as outlined below.

- *Special interest funds.* This category might include funds for athletics, the library, the museum, and so on.

- *Temporary special interest funds.* Into this category would fall funds that might be expected to continue for many years, with others having a limited life with specific approved amounts and donor sources.

The following operating procedures usually guide the administration of the funds:

1. Get the dean or department head's approval. Any special constituency fund would first have to be approved based on fulfillment of budgetary and income projections.

2. Identify appropriate donor sources. All special constituency funds would solicit from sources approved for them. In the case of school or college funds, the alumni of the unit would form the primary constituency.

3. Keep donation channels open. All pledge cards sent to alumni, regardless of the fund that originates the mailing, would provide an opportunity for alumni to allocate the contribution to any approved fund.

4. Assign responsibility. The foundation officer assigned to a fund would be responsible for monitoring each fund to ensure prerequisite approval for any special packages or implied restricted designations.

5. Create a system for tracking major donors. As part of the approval of any college constituency or special fund, a procedure for identifying and tracking significant donors, following up with them, and reporting their major interests would be required and agreed upon.

6. Process gifts centrally. All contributions would be centrally received and processed through the gift records section of the foundation office.

7. Share constituent names. As constituents on one list indicated other special interests, opportunities would be furnished for them to be solicited by those programs.

Additional considerations

If you plan special programs and projects involving either academic units or other units, you will need to get advance approval from the appropriate dean or director and the president or presidential designate.

Give an established constituency fund, such as Engineering, access to the alumni of its unit on a continuing basis for all approved special projects or programs. Exceptions are alumni who are designated "major gift" prospects. For these prospects, you will have to devise a special system for determining access. This system would apply to corporate, foundation, and nonalumni individual donors, as well.

Be sure that each fund provides a specified amount to the central foundation account for discretionary use by the president of the university. Review these amounts annually and take into account the fund's past performance. Also create incentives to increase the yield.

The foundation will have to centrally coordinate constituent funds not associated with a particular school or academic department, such as the library or museum. You'll want to avoid multiple approaches from different areas of the university except as planned.

Assign officers of the foundation to the various funds on a full-time or part-time basis. The foundation will fund these people, whom the director of the foundation and the dean or director of the unit to which they are assigned will select jointly.

Once you have established constituent funds, the foundation officer in charge will work in a dual capacity for the head of the academic unit involved and the foundation director. In fact, you'll find it advantageous to assign the foundation officer to an office in the unit's building. In this way, you'll enhance the direct involvement of the dean, faculty, and students.

This constituent-based fund-raising model is best described as "decentralized." The central office retains all those functions such as recordkeeping, gift processing, investing and managing of gifts, administering trusts and estates, evaluating and researching prospects, and tracking and managing major donor prospects. These functions are accomplished more efficiently in one office and should not be duplicated. However, having the foundation officer "live" in the unit of which he or she is in charge, does increase involvement and improves communication and coordination among all foundation fund-raising programs.

You can use this same model when one foundation is serving a multi-campus university. Unquestionably, you'll have to pay greater attention to logistics when foundation officers are located away from the main office. Nevertheless, if your fundamental objective is to maximize private gifts to your university, a constituent-based program operated through the institutionally related foundation can be a very sound organizational structure.

Chapter 7

LEGAL ASPECTS OF FOUNDATIONS

by Donald Lemish
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East Carolina University

Section 501(c)(3) of the Internal Revenue Code states that an organization may qualify for exemption from federal income tax if it is organized and operated exclusively for one or more of the following purposes: charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or the prevention of cruelty to children or animals.

This section of the Internal Revenue Code is so very important because such classification is the qualifier that makes contributions to the organization deductible as charitable contributions on donors' federal income tax returns.

Most discussions of foundations and tax policy related to higher education focus around Section 501(c)(3) of the Internal Revenue Code. Section 501, enacted in 1917, singles out certain organizations for special tax treatment. Section 501(a) exempts from federal income tax those organizations described in Section 501(c)(3).

Other sections of the Internal Revenue Code elevate the importance of Section 501(c)(3): One provides "that such organizations are eligible to receive gifts and bequests that are deductible in computing the income, gift, and estate tax liabilities of the donors."

Publication 557 of the Internal Revenue Service is a 42-page document that details the procedures for an organization to apply for tax-exempt status and the various qualifications necessary for such status. If your organization is considering applying for qualification as a 501(c)(3) tax-exempt organization, this publication and an attorney will prove to be your two most beneficial acquisitions.

Incorporating

The first step in forming a private foundation is to identify persons who can serve as incorporating directors. Next, employ an attorney to draft a charter to be filed with the Secretary of State. After you've obtained a corporate charter, the next step is to file IRS Form 1023 to apply for a 501(c)(3) tax-exempt status.

Your Articles of Incorporation should contain the required information as to purposes and powers of the organization and disposition of its assets upon dissolution. Publication 557 includes a sample set of Articles of Incorporation. Requirements for these instruments may vary from state to state; however, there are some standard items that must be included.

1. The corporate charter should state the purposes of the corporation (foundation), list the composition of membership and board of directors, and fix the corporate year.

2. The charter should be broad in nature, providing for bylaws that set forth the number of members, directors, officers, meetings, and so on.

3. The Articles also should include the official name of the corporation and principal office location.

4. Names and addresses of persons who are the initial trustees of the corporation must be listed. These persons do not have to be persons who will later be directors elected under provisions of the bylaws.

5. A statement that no part of the net earnings of the corporation shall inure to the benefit of or be distributable to its members should be in the articles.

6. Finally, the articles must include a statement dealing with the dissolution of the corporation and how any such assets are to be disposed.

If your organization wishes to obtain recognition of exemption as an educational organization, you must submit information as to how the organization carries on or plans to carry on its educational objectives.

The following types of organizations may qualify as educational:

1. An organization, such as a primary school, secondary school, college, and so on, that has a regularly scheduled curriculum, a regular faculty, and a regularly enrolled student body in attendance at a place where the educational activities are regularly conducted.

2. An organization whose activities consist of conducting public discussion groups, forums, panels, lectures, or other similar programs.

3. An organization that presents a course of instruction by means of correspondence or through the utilization of television or radio.

4. A museum, zoo, planetarium, symphony orchestra, or other similar organization.

Some private foundations under Section 501(c)(3) are classified as public charities. It is most important to determine if your organization is a private foundation or a public charity. Most organizations exempt from income tax are presumed to be private foundations unless they notify the Internal Revenue Service, within a specified period of time, that they are not. This notification requirement applies to most 501(c)(3) organizations regardless of when they were formed.

Every organization that qualifies for tax exemption under Section 501(c)(3) is a private foundation unless it falls into one of the specific categories excluded from the definition of that term and referred to in Section 509(a)(1), (2), (3), or (4). To be classified as a public charity the organization must be one of the following:

1. A church (including a convention or association of different denominations).

2. An educational organization such as a school or college.

3. A hospital or medical research organization (operated in conjunction with a hospital).

4. An organization operated for the benefit of certain state and municipal colleges and universities.

5. A government unit.

6. A publicly supported organization.

A private foundation can be either an "open" or a "closed" corporation. Open means that the charter provides for the election of members, whereas a closed foundation is one that has no members and whose affairs are handled by an elected board of directors that perpetuates itself.

After you have filed your charter for incorporation, you'll need to begin organizing the foundation into a workable body. Give consideration to the proper balance between "outside" and "inside" directors. To minimize any legal considerations that the foundation is a part of the state, it is wise to have a majority of outside directors. Some foundations have only outside directors and no "inside" directors. Outside directors are individuals who are not in the employ of the state or institution. Inside directors are those directly related to the institution because of employment, trustee membership, or some other affiliation.

The initial board of directors should draft the bylaws of the corporation as one of its first official acts. The bylaws should include all specifics about membership, terms, officer, number of meetings, committees, and election procedures.

It is advisable to set terms for directors that provide a balance from year-to-year and that preclude the need to replace or re-elect all directors in the same year. Most foundations seem to function best with a body of directors whose number is a multiple of three who are elected to staggered three-year terms.

In developing bylaws, it is important to keep a harmony between foundation and institution. If the foundation includes both "inside" and "outside" directors, strike a balance between roles to be assumed by outside directors and officers of the institution. Organizational structures vary considerably, especially when the president of the institution is involved. In some cases, he or she serves as foundation chair of the board while an outside director is elected to serve as president of the foundation. In other cases, he or she is the president of the board or a member only.

Questions often arise concerning whether faculty members should be allowed to serve as directors. Because the foundation will be in a position to support various faculty projects, most often it is recommended that faculty directorships may provide a conflict of interest and, therefore, are prohibited in the bylaws.

In non-membership foundations, the biggest problem with bylaws often is the treatment of terms of directorships. Many organizations forget to set limits on directorships or simply avoid the question because they don't want to lose good persons. An appropriate way to handle the problem of length and number of terms of directors, without losing good leaders, is to provide for emeritus status. One model foundation is structured to provide three-year terms for directors and permit reelection twice. After a director has served for nine years, the director may be elected to emeritus status. As an emeritus director, an individual is invited to participate in all meetings but does not vote.

Bylaws of the foundation should be complete and descriptive. You can obtain sample bylaws from any one of hundreds of organizations; however, be careful in reviewing sample bylaws. Your bylaws should be able to meet the desires of your organization's leaders and the purposes of the organization.

In developing your bylaws, you'll need 10 to 12 specific "articles." The bylaws should begin with a Preamble that sets forth the specific purpose of the foundation. The bylaws should contain the following articles. (A complete sample set of bylaws will be found in the appendix to this book.)

PREAMBLE

ARTICLE I. OFFICE

ARTICLE II. SEAL

ARTICLE III. BOARD OF DIRECTORS
Section 1. General Power
Section 2. Number
Section 3. Quorum
Section 4. Ex Officio Directors
Section 5. Public Directors
Section 6. Director Emeritus

ARTICLE IV. MEETINGS
Section 1. Regular Meetings
Section 2. Special Meetings
Section 3. Manner of Acting
Section 4. Vacancies
Section 5. Informal Action
Section 6. Removal of Directors

ARTICLE V. OFFICERS
Section 1. Officers
Section 2. Renumeration
Section 3. The President
Section 4. First Vice President
Section 5. Second Vice President
Section 6. The Secretary
Section 7. Treasurer
Section 8. Vacancies
Section 9. Delegation of Duties
Section 10. Other Officers
Section 11. Removal

ARTICLE VI. COMMITTEES
Section 1. Executive Committee
Section 2. Finance Committee
Section 3. Audit Committee
Section 4. Nominating Committee
Section 5. Administrative Committees
Section 6. Active Fund-Raising Committee
Section 7. Vacancies
Section 8. Quorum
Section 9. Rules
Section 10. Minutes

ARTICLE VII. FINANCES
  Section 1. Use of Income
  Section 2. Contributions and Disbursements
  Section 3. Budget
  Section 4. Administration of the Budget
  Section 5. Checks, Drafts, Etc.
  Section 6. The Fiscal Year
  Section 7. Bank Accounts
  Section 8. Limitation of Expenditures

ARTICLE VIII. EXECUTION OF CONTRACTS, DEEDS, AND TRANSFERS AND REPRESENTATION WITH REFERENCE TO SECURITIES
  Section 1. Execution of Contracts and Deeds
  Section 2. Voting Securities Owned by the Foundation

ARTICLE IX. EXCULPATION OF DIRECTORS

ARTICLE X. CONFLICT OF INTEREST

ARTICLE XI. EFFECTIVE DATE

This outline suggests an article concerning conflict of interest because this is emerging in many states as a point of interest to legislators and state judicial officials. Perhaps this stems from the fact that most states have explicit laws concerning conflict of interest of persons appointed to public boards.

Many will argue, and most likely easily will prove, that a conflict of interest policy as specific as a particular state policy would prohibit college and university foundations from attracting the quality of influence and leadership necessary for successful fund raising.

The following type of statement is considered appropriate to deal with potential conflict of interest of any person serving a 501(c)(3) or 509 foundation:

> Any director or officer shall declare himself/herself as "abstaining" from discussion and vote on any matter in which said director or officer may be considered to have a conflict of interest. Such abstaining declaration shall be made for the record at the beginning of any such motion or discussion and shall be recorded in the official minutes of the meeting. The same conflict of interest procedures shall apply to any director participating in any committee action, discussion, or vote.

Once your foundation has incorporated and has a set of bylaws, the next step is adopting a thorough set of fund-raising policies and guidelines. The policy rationale should establish specifically who is responsible for the coordination and leadership internally of all fund-raising activities. You should include a specific policy statement such as the following.

> Solicitation of gifts to be made by anyone for the benefit of (institution), or any agency thereof, shall require the prior approval of the president through the vice president for development.

Never assume that a policy statement giving fund-raising authority and coordination to a specific area or unit of the institution is enough. You should address this problem in a manner that completely delineates why responsibility and coordination must rest with one specific unit of the institution or that the foundation has full responsibility in behalf of the institution.

You must have very specific policies on setting up funds within the foundation and on how funds can be used. Organizations will find that, in a first attempt, not every policy or guideline will be applicable. These are items that will be edited, altered, and added to as time and experience progress.

With a corporation charter, bylaws, policies, and so on, a foundation is in business. Or is it? The most important ingredient will be that of leadership. Paid staff will be responsible for providing volunteers with the professional leadership and support materials necessary to good fund raising. The directors and volunteers must be of such influential status publicly that they will effectively seek and generate the private support for your foundation's needs and purposes.

Chapter 8

FORMULATING INVESTMENT POLICIES FOR THE INSTITUTIONALLY RELATED FOUNDATION

by Lewis W. Barron
Vice President and Executive Director
University of Illinois Foundation

Formulating a sound investment policy is one of the most important tasks the leaders of a foundation will ever undertake. The process is neither a science, nor an attempt at alchemy. Reflecting upon the task and dividing it into meaningful steps will help ensure a reasonable outcome.

The starting point--determining a philosophy

It is imperative to develop a philosophy to underpin a sound investment policy. Important questions to address include: What types of funds will we be investing? How will the funds received and the income earned be used by the foundation and by the college or university it supports? What laws govern our actions as a fiduciary of donated funds? What type of return should we expect to generate? Failure to answer such questions has tarnished the reputation of some colleges and universities in their handling of private gifts.

Keep in mind that there are two constituents who have a vested interest in your investment policy, and to whom you are accountable. The first and most important of these is the donor, who makes his or her gift out of a sense of loyalty and commitment to the institution. If an endowment is involved, the donor has the right to expect that the principal will be invested wisely and will generate an income sufficient to accomplish the purpose set forth by the terms of the gift. The second constituent who has a vested interest is the donee, the institution and its various units. During the process of securing the gift, the donee should be involved at least to the point of acknowledging the gift and its potential usefulness. Remember that the donee is going to take actions and make commitments based on the income that is anticipated.

Be sure to communicate the results of the investment policy to your two key constituents, the donors, and the donees. An audited financial report can go a long way to underwriting confidence among constituents that the investment policy is what it says it is and does what it says it will do.

Formulating policies and procedures

After identifying its objectives, the foundation must formulate specific policies and procedures. Usually, foundations designate an investment committee to handle the final formulation and ratification of specific policies. Before seeking the committee's approval, however, the foundation's professional staff should develop a preliminary investment policy, which provides specific recommendations that can be amended during the investment committee's deliberations.

One consideration is the degree of risk aversion to express on behalf of the organization. Carefully define the risk the foundation is willing to take in seeking a stated return. It is one thing for a wealthy individual or a mature capital firm with $50 million of assets to speculate in new ventures, but it is hardly something a fledgling foundation will wish to consider. There are no "free lunches" in the financial marketplace, and over the long term the potential return from an investment will accurately reflect the degree of risk which is assumed. State law will certainly play a role in this regard as there are likely to be standards of prudence to which the foundation adheres. Very early in the development of an investment policy legal counsel should be asked to render an opinion on the subject.

Another consideration is how the foundation's policy compares with the current standards of the general market. Nothing seems to anger donors or donees more than to see their endowment funds earn 5 percent when they can do better themselves with a passbook savings account. Constituents will love a foundation whose portfolio greatly outperforms the S&P 500, but they quickly will forget how great it was when its high tech investments fall through the floor during a bear market.

The educational enterprise is a rather conservative beast, and donors and donees alike will feel more comfortable with reasonable objectives which closely mirror the general market. Capital growth and current yield objectives should reflect the performance of high quality securities in the appropriate markets. Keep in mind also that institutional business offices by their very nature are "expenditure control" oriented and seldom share the "asset management" philosophy which the foundation's investment policy must embrace.

Setting goals

The goals of an investment policy should be stated as very specific rate-of-return targets. It goes without saying that once adopted goals will need to be monitored and changed as appropriate to reflect the marketplace. They will reflect the degree of risk the foundation is willing to assume and can only be established in light of the considerations earlier discussed.

To facilitate goal-setting, subdivide gift revenues into meaningful categories and establish targets for each. For example, consider the following classifications:

1. Funds for current expenditure. These are gift monies, usually generated by the annual fund, which are to be expended for the designated purpose as soon as possible or on an "as needed" basis. If you have the luxury of holding such funds for a period of time before turning them over to the university or college, they can be invested on a short-term basis. Current expenditure funds must, by their very nature, be invested in highly liquid vehicles such as money market instruments and Treasury Bills. The targeted rate of return for these monies should be set accordingly. Whether the return generated by these funds represents operating money for the foundation or accrues to the benefit of the college or university is a political matter better left to another forum.

2. Quasi-endowments for designated uses. These are funds which are to be held and invested, but both principal and income may be expended for the designated purpose. What this implies is that the foundation is under no obligation to retain the principal in perpetuity. Such funds are often created where gifts are sizeable yet fall below the requirement for a permanent endowment. A rate of return must consider three factors: current yield, capital growth, and total return. If we choose for our quasi-endowment a total return target of, say, 12 percent before discounting for inflation, perhaps 8 to 10 percent should be for current yield, with the balance for capital growth. This is because such funds will be fully expended over time, and capital growth to keep up with inflation is not the most relevant objective. While the total amount is for current expenditure, some investment will prolong the life of a given fund.

3. Permanent endowments for designated uses. The target rate of return for permanent endowments must reflect a concern for future growth in principal in order to offset the inflationary bias of our economy. If we again use 12 percent as a sample target rate, perhaps 7 to 8 percent should be designated current yield, leaving the balance for capital growth. These funds are to be invested in perpetuity (a concept about as elusive as infinity). The goal should be to generate a current yield adequate to carry out the designated purpose (e.g., provide a full scholarship every year) while promising some capital expansion. It is hoped that the income will be higher in future years so that the program will remain meaningful.

4. Unrestricted monies. This category is the most fun to "play with" and offers many options. Perhaps this is where the foundation can assume a slightly greater risk and establish a higher target rate of return. It is also true that needs will vary. For example, during a capital campaign an institution may wish to invest unrestricted endowments to maximize current yield to meet budgetary exigencies, returning to a more balanced approach when the pressure subsides. Into this category might fall some rather interesting investments and business opportunities (such as a limited partnership in a local shopping mall). Use language in the investment policy which provides some latitude. Consider not setting any target rates of return at all, since these investments tend to vary dramatically in their performance.

5. Life income trusts. This important source of gift support deserves special attention during the formulation of investment policy guidelines. There are special fiduciary responsibilities and limitations imposed by law, but there are also significant opportunities to provide investment management services to this expanding group of donors. Pooled Income Funds, for example, can be designed to provide different levels of income such as: (a) a high level of return for older donors; (b) a generous income with some growth potential in anticipation of further inflation; or (c) a growth-oriented portfolio that will be reinvested to maximize income after a stated period of years. (This latter type of Pooled Income Fund is best suited to the slightly younger donor who can benefit from an immediate income tax deduction, but who is not now in need of more taxable income.)

Pooled endowments vs. separately managed investments

The basic rule for endowment funds is to pool the funds being invested in order to spread the risk, or opportunity, and reduce the management costs. (This has no relationship to the IRS designation of "Pooled Income Fund.") At the same time policy guidelines must be flexible enough to administer those funds which, for one reason or another, must be separately managed. (The donor may mandate that the endowment be managed separately, or the asset received as a gift may not be readily marketable, etc.)

The specific goals in a policy statement will no doubt be influenced by the size of the endowment pool, although the numerous investment vehicles available today make it possible for even modest portfolios to fully participate in the marketplace.

Custodial functions

A foundation may wish to secure the services of a custodian to handle such things as the safekeeping of securities and the depositing and transferring of funds. The term custodian correctly implies a lack of discretionary power--the foundation's business manager, under the guidance of the investment committee, will direct such actions. Obviously, the foundation will pay a fee for custodial services; in the long run it will probably be much cheaper than handling it in-house.

Very few foundations grow to a size which allows custodial tasks to be handled in-house. The college or university business office can serve as the custodian for foundation funds, and in many cases this will be the best choice. However, in larger foundations there is a trend toward the use of outside services, perhaps in coordination with the affiliated institution, in recognition of the divergent needs of the two related organizations. The custodian should be appointed by the investment committee, or at least approved of by same, and this consideration should be addressed in the investment policy.

The investment committee

Selecting an investment committee is not difficult at institutions with an adequate pool of volunteers. Investment committee members most often represent the middle to upper levels of medium to large-size corporations. It hardly needs to be said that financial experience is their outstanding qualification. Banks and utilities may be good choices, although seeking representatives from other, more dynamic sectors may be helpful.

Given the above factors, it is possible that the corporate background of your investment committee members will push the foundation in the direction of a relatively conservative approach. However, don't forget the occasional entrepreneur or wealthy investor. A "maverick" can lead to more dynamism and perhaps improve your results.

A foundation's investment committee is ultimately responsible and accountable for the investment policy and its implementation. The degree of control exercised will reflect the personalities of the committee members, as well as the magnitude of the investment task. Keep in mind that the investment committee's responsibilities are very real as there are liability exposures which must be considered.

All of the factors earlier mentioned will combine to generate an investment committee's overall approach to its task. Some committees prefer to review investment performance only periodically (e.g., quarterly) and do not offer much in the way of specific guidance. The emphasis in these cases is on matching the goals stated in the investment policy. Other committees opt for greater control in the form of reviewing individual selections.

One useful technique is for an investment committee to develop a buy/sell list of securities for each category of investment. Operating officers must then restrict their investments to these chosen items. Such a list probably will include target prices for both the purchase and sale of each security. Proportional ranges for the entire portfolio are also a possibility. Any variance from this buy/sell list must be approved by the committee, who, of course, regularly review and revise the list, usually quarterly. A buy/sell list can be a very convenient guide for daily operations for foundation officers who may not have the expertise and certainly do not have the time to select among the choices. If a buy/sell list is not developed by the investment committee, seek the assistance of investment counsel.

Investment counsel

Most investment committees meet only on a periodic basis, a schedule which does not lend itself to quick decisions in a dynamic marketplace. The most meaningful service a committee can provide is to lend general direction to financial operation. Very often the best day-to-day solution is to secure the services of an investment counselor who will function within the broad parameters established in the investment policy. The decision to appoint an investment counselor and the procedure for this should be stated in the policy itself.

The investment committee will make the final decision as to a specific investment counselor. Finding applicants will not be difficult. Numerous firms, or divisions of brokerage houses and other financial institutions, will be ready, willing, and able to serve in this capacity. The basis of selection is, by the way, a matter which is best left to the experts on the committee, although past performance is usually the dominant criterion.

The foundation's custodian may also serve as its investment counsel, offering the dual advantages of efficiency and convenience. However, the selection of an investment counselor is not to be taken lightly and the criteria which are developed should be rigorously applied. If the custodian is a banking institution, as is likely, remember that this bank may not be in a position to provide the kind of equity-oriented investment expertise required.

The investment committee should review the foundation's formal investment policy every time it meets. This document may require frequent revision; don't be reluctant to take such action as often as necessary. Certainly, given the current economic environment, target rates of return are likely to change frequently. Being slow to adapt will only expose you to the abysmal returns you have no doubt witnessed at other institutions.

Few tasks are more vital to an institution than the conscientious performance of the foundation's stewardship function on behalf of its donors and the institution it serves. It is a sacred trust calling for the highest performance standards. At the same time, remember to be creative and perhaps bolder than is sometimes the norm in academe. After all, institutionally related foundations offer that opportunity.

Chapter 9

FINANCING AND BUDGETING A FOUNDATION

by Darrell D. Wyrick
Executive Director
University of Iowa Foundation

At every meeting of development officers or foundation directors, concern over the future financing of fund-raising operations is a major topic of discussion. As the demand for private funds increases at all public institutions, the size of the fund-raising operation must also increase. Foundations must be prepared to expand their staffs and their budget allowances for the other expenses of fund raising.

Everyone knows, believes, and promotes the old axiom that "it costs money to raise money." But in the current fiscal climate, convincing the administrators isn't easy. Cutbacks in budgets, not budget expansion, are the current reality on most campuses. However, the fund raiser must continue to push for an increased fund-raising budget to stimulate desperately needed private support.

Budget and staff sizes

To illustrate the recent growth in staff and budget size, some statistics from the nine state universities in the Big Ten Conference may be helpful. The figures probably are not that different from those at similar institutions throughout the nation. In the 1971-72 fiscal year, the average fund-raising budget for the foundations and the development offices at these Big Ten universities was about $300,000. On the average, the 1971-72 fund-raising staff consisted of about five executives or professional staff members and 10 support staff members, for an average total staff size of about 15 members.

In contrast, the 1981-82 average operating budget for the foundations or development departments at the same universities was $1.8 million. The average staff size was 46 members total, including 17 executive or professional staff and 29 support staff members. Keep in mind that these staffing statistics include only budgeted staff. Unpaid staff members are a vital component in any fund-raising operation, as well. These include the president or chancellor, vice presidents or vice-chancellors, deans, department heads, faculty members, athletic directors and coaches, and many other members of the faculty and staff. These persons help to create the climate for fund raising and they often help to make the solicitation calls, as well.

One of the budgetary factors of fund raising is the cost of keeping these persons involved and informed, so that their participation expands the fund-raising team effort. If the fund-raising team includes only the paid staff of the foundation, the fund-raising program will never capitalize fully upon its market and potential. Fund raisers also must mobilize, inform, and stimulate many other members of the university family and many volunteers.

Budget resources

Whether a university foundation's operating budget is large or small, it usually is supported with funds from one or more of the following six sources:

1. Funds from the university itself. These could be state appropriations, but most often consist of other university funds such as investment income. For the foundations in the Big Ten, university funds are not a major source of budget support. Most of these foundations receive less than 5 percent of their operating budget from university funds; the maximum from this source is 10 percent.

2. Undesignated outright gifts to the foundation. On the average, foundations in the Big Ten support about 10 percent of their operating budget with undesignated outright gifts. Undesignated gifts support a range from zero to 30 percent of the budget. In all honesty, the foundation's use of the outright gift, which is given for the "best use of the university," appears to misconstrue the donor's real intention. In most cases, the donor intends a direct benefit to the university by the undesignated gift.

3. Reimbursement received from constituent funds. A rapidly growing area of expense as well as a growing source of funds to support foundation budgets is reimbursement by constituent programs for the cost of fund raising. This reimbursement usually comes from the restricted gift funds but may come from other funds available to the college or unit involved.

Currently in the Big Ten, constituent fund reimbursement constitutes only from zero up to 25 percent of the foundation operating budgets. However, this is an area of budget support that will have to grow substantially as constituent fund raising itself continues to grow. In order to justify adding these fund-raising programs for constituent areas, these programs must eventually be self-supporting at the least. Most foundations have some kind of program to provide "seed money" to support fund-raising budgets for constituent funds for the first one to three years. Of course, constituent fund raising will continue to expand only if the programs produce substantial gift funds in excess of the costs of fund raising.

4. Earnings from long-term investments or endowments. Most state university foundations have a relatively small undesignated endowment, and accordingly earnings from long-term investments or endowments do not on the average provide a substantial amount of operating budget support. For the foundations in the Big Ten, income from long-term endowment provides an average of about 5 percent of the operating budget, with the range being from zero to 15 percent.

5. Earnings from short-term investments, primarily from the investment of the "cash float" of the foundation. A large portion of the budgetary support for most foundations is provided by income from short-term investments. This income comes from gift funds earmarked by the donors for specific purposes but invested for the foundation's own benefit prior to spending the gift funds or transferring them to the institution itself.

During the 1971-72 budget year, foundations in the Big Ten, on the average, used earnings from the short-term investment of their cash float to support between 5 and 10 percent of their operating budgets. That factor has increased dramatically in recent years. For the 1981-82 fiscal year, most of these foundations supported from 60 to 80 percent of their operating budgets from the investment of cash float funds. In dollar terms, the Big Ten foundation budgets include allocations of short-term investment income ranging from a minimum of $200,000 up to a maximum of $1.6 million. Of special concern is the fact that as interest rates fluctuate, so does the amount of funds available from this source to support the fund-raising budget of a foundation.

6. Other miscellaneous sources of income such as income from contracts, real estate, and patent or copyright royalties. Unfortunately, for most foundations, especially the younger ones, income from such sources as patent and copyright royalties, real estate, and contracts is not a major factor in budgetary support. However, as the operations and scope of activities of foundations expand, such opportunities for budgetary support from non-gift sources come more frequently. Foundations should seek out and capitalize on opportunities to diversify their activities in areas that can lead to opportunities for income to support the operating budget.

Increase of budget support

What are the prospects for increasing levels of budgetary support from some of the six sources mentioned above? As far as university funds (category 1) is concerned, it is unlikely that the amount of such funds allocated to support the operations of a foundation will increase for very many foundations.

This is true even though past experience has proved that one of the best investments universities have made in the past 20 to 30 years has been providing seed money from university funds to launch a foundation. Generated gift funds have paid back those operating funds in ratios of from 20-to-1 up to 100-to-1 and more. In spite of this record, the allocation of university funds to a foundation can be unpopular politically on campus. Therefore, most university administrations will be unwilling to make major commitments of resources for such purposes.

In the case of most Big Ten foundations, university funds are a shrinking rather than growing source of budgetary support. This trend is understandable in these times when budget trimming and cutbacks, rather than inflationary budget increases, are a way of life on campuses.

In order to launch and expand a foundation, it may be necessary to use all or at least a large portion of the undesignated outright gifts received (category 2) to support the operating budget. Undesignated gifts are a critical source of "bootstrap" funds for support of new fund-raising operations. However, for many reasons, foundations should develop other sources of support, so that the university administration can use undesignated gifts in areas of great need. Such use of the undesignated funds for educational purposes also provides the additional rationale that encourages prospects to make undesignated gifts.

Reimbursement of fund-raising costs by constituent funds (category 3) is an area where growth in the budgets of foundations is both possible and likely. Constituent fund-raising programs for schools, colleges, departments, athletics, the arts, libraries and other units are microcosms of the overall operations of a university-wide foundation. They will continue to expand in the years ahead.

On a small scale, each of these identifiable fund-raising units must produce the necessary budgetary support for its fund-raising program. These budgetary funds might come from undesignated gifts to the constituent area, from earnings off the investment of the unit's gift funds, or from other departmental funds or miscellaneous sources of income. Constituent fund raising is and will be the primary growth area for most foundations, and the reimbursement of foundations for the cost of conducting these constituent fund-raising programs will be a growing and critical source of foundation budgetary support for the future.

Most foundations do not have large undesignated permanent endowments (category 4). However, foundations should work on acquiring large undesignated gifts with donors' understanding that they will be permanently invested. In order to attract such gifts, the foundation must convince its key donors of the worthiness of solidifying the future of the fund-raising operations. Another way of building an undesignated endowment is by investing any excess operating income available at the end of each budget year. Unless foundations begin to build an undesignated endowment reserve now, the prospects are bleak for being able to finance adequate operating budgets in the future.

In recent years, earnings from short-term investments (category 5), primarily through the investment of the foundation's cash balances, have been a rapidly growing source of budgetary support. This is true because the level of gift flow in most foundations has been rising and because interest rates have been relatively high. For example, in early 1982, interest rates of 16 to 17 percent on short-term funds were common. Accordingly, it has been easy to develop and justify rapidly growing operating budgets, because sufficient short-term investments were generating earnings to support the budget. But, as expected, interest rates have dropped substantially and a caveat is in order.

Definitely use caution in expanding operating budgets through the use of short-term investment income in times of high interest rates. Be sure that alternate sources of replacement or back-up support for the operating budget are available should interest rates fall. In addition, be prepared for increasing pressure from the institution itself for the foundation to transfer gift funds to the university as promptly as possible. This will reduce the levels of investable cash available to the foundation.

With these reservations in mind, use the following guidelines to maximize the amount of short-term investment income available to support the foundation's operating budget:

1. Raise as much money as possible.

2. Invest cash when received as promptly as possible.

3. Keep cash funds invested as long as possible prior to their direct expenditure or transfer to the university.

4. Establish a good short-term investment policy and procedure so that all available cash is invested on a daily basis and the short-term interest rates received on such funds are optimized.

Budget management

The preceding thoughts and statistics on foundation budgets may be helpful information to persons involved in creating or expanding a foundation's fund-raising program. All of the stated percentages and dollar figures are based on "overall" operating budgets for Big Ten foundations. However, for a foundation to have an effective budget accounting system, it must categorize all the operating expenses both by type of expense as well as by program function (such as general administration, annual giving, planned giving, capital campaigns, and so on). The foundation also should be able to identify and quantify the results of fund raising by the same program functions, as well. This is the only way that the managers and directors of a foundation can ensure that the operating budget dollars are spent where they do the most good. For example, the foundation should be able to measure, through the operating budget, the cost to raise a dollar through various techniques such as annual giving by mail, telephone or personal solicitation, through honor clubs, corporate solicitation, through planned giving money received and expectancies created and other fund-raising methods. Also, it should be able to quantify the cost to add a new contributor to a foundation's honor rolls by these various fund-raising methods. In the absence of detailed and reliable statistics measuring these two factors, meaningful and creative planning of fund-raising programs and the consequent budgeting for them is impossible.

Most foundations have been through some years of tight budgets, and there likely are many more such years ahead. Therefore, the foundation staff must sit back from time to time and look at the overall fund-raising operation and ask: "How much is this fund-raising function costing?" "How much money is this function bringing in or is it likely to bring in?" and finally, "Is this function worth it?"

When planning and budgeting, recognize that all fund-raising programs include some operations that are expensive, such as building a base of contributors, which may cost from $0.25 to $0.90 per dollar raised. Some fund-raising programs, such as major and deferred gifts and capital campaigns, are cheaper.

Accordingly, in planning fund-raising operations and budgets, the fund-raising staff must keep its eye on its "rabbit" at all times. The rabbit in the case of foundations consists of two quantities: number of gift dollars and number of contributors. Everyone who is interested in the results of a foundation's fund-raising efforts will use the annual reports or production statements of the foundation or the CFAE reports to assess the foundation's productivity.

Accountability to the public

A final caveat for all foundations is that their fund-raising programs' accountability must be impeccable.

Unless a foundation's publics perceive it as an efficient, business-like, and scrupulously accountable organization, it will not be able to maximize the level of gifts and, accordingly, its operating budget will always be subject to questioning. The only reason for a university to have a foundation is to create a mechanism that will provide additional gift benefits for the institution. Creating a foundation is no magic or immediate answer to fund-raising success. Once created, the foundation must consider itself as accountable as the institution itself.

Each educational institution is unique, as is each foundation. The ways in which foundations are created, developed, financed, and budgeted are likewise unique. Foundation managers must be creative in formulating and financing ever-increasing fund-raising budgets. For a foundation to carry out its mission, it must find ways to provide increasing budgetary support for the fund-raising programs.

Chapter 10

MULTIPLE FOUNDATIONS: ADVANTAGES AND PROBLEMS

by George E. Moore
Executive Director
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If you are considering setting up a multiple-foundation system at your institution, the experience of North Carolina State University might be illuminating. This article weighs the pros and cons of our system and tells you how it started. We've found that the advantages of specially focused foundations far outweigh the organizational disadvantages of juggling 13 different entities.

North Carolina State University has 13 foundations serving the nine schools of the University and several special fields within these schools. In addition, we have a general foundation known as the North Carolina State University Foundation. The vice chancellor for foundations and university relations is responsible for overall management. The associate vice chancellor for foundations and development has the major responsibility of coordinating the foundations' programs. The latter has exclusive responsibility for three foundations -- Engineering, Design, and the NCSU Foundation. Four assistant directors of foundations report to him, and they divide the remaining ten foundations among them.

How did North Carolina State come to such an arrangement? It would be nice to be able to say that it is the culmination of a grand design, of careful long-range planning, of years of study and work. Actually, the creation of each foundation was a pragmatic decision based on the needs of the times.

The North Carolina State University Foundation was the first, chartered in 1942 to serve as a conduit through which private funds could be channeled for the support of teaching, research, and public service for all of the university. It was hugely successful. In time, other foundations were added one by one as needs grew more urgent in the rapidly growing schools. As systematic efforts at fund raising began to produce impressive results for the foundations already in existence, we added more.

That's the background. Now, what are the advantages of such an organizational structure?

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The advantages

A board of directors serves each foundation. There are 631 directors serving at any given time. Twenty-five percent of these directors rotate off the boards each year and are replaced by new ones. So an obvious major benefit of multiple foundations is the direct involvement of large numbers of key volunteers.

Each director serves a four-year term. That length of time is sufficient for directors to become knowledgeable spokespersons for the foundations they serve, to become fully acquainted with the university and the specific schools that benefit from the foundations' work, and to develop a deeper commitment to the aspirations of the foundation. Directors use that knowledge, familiarity, and commitment to best advantage in attracting private support.

It is axiomatic in the development profession that from the meaningful involvement of volunteers comes increased rewards of financial support. Active volunteers also bring the equally important benefits of help with student recruitment, greater visibility of the institution, and increased understanding of the total work of the institution.

On the negative side, managing hundreds of volunteers can be dangerous. The advantages will be lost and the institution damaged if the proper care and feeding of volunteers is not a constant concern of the professional staff. The volunteer has every right to expect that committed time will be used wisely.

Starting with the manner in which he or she is invited to serve, the volunteer will begin to assess the competency of the staff and the validity of the work they will perform. They deserve all the information available about the institution and a description of their specific responsibilities. Recognize that willing but undirected volunteers have the capacity to do harm as well as good. Recognize, too, that undirected and apparently meaningless activity will lead to a sense of apathy and dissatisfaction. Make it clear that the institution both appreciates and accepts the responsibility for coordinating, assisting, and directing the efforts of those who are generous enough to want to serve a worthwhile cause.

Volunteers should know that they are not being asked to act alone. Bring them to the campus as often as possible to sharpen their understanding of current needs and problems, to build their enthusiasm for the enterprise, to acquaint them with faculty and students, and to encourage the exchange of ideas. Similarly, members of the professional staff and the faculty should be available to travel to meet with volunteers and with major potential supporters away from the campus. You should give volunteers public recognition for their accomplishments. The foundation should constantly be thanking them and letting them know how important they are to the institution.

Another important advantage of multiple foundations is the concentrated attention they can give to specialized fields within the institution -- engineering, architecture, and the like. They can engage volunteer board members who have specific interests and abilities in those fields. These may include industry representatives who use the knowledge research laboratories generate and who hire the graduates in their field. A volunteer may be the farmer or the agri-businessperson whose crops or commodities benefit from the development of new production and marketing techniques. Volunteers may be lay consumers of a product or service important to their health or comfort. In short, the multiple-foundation approach offers the opportunity to involve people whose vested interests parallel the aims of the foundations. However, not all members of a particular board should be representative of one interest area. For leavening and perspective, some diversity is healthy.

Since a board may be composed of persons with common interests, these members are apt to bring to their work a special expertise and insight about the field. Orientation can focus on specific programs and needs in the institution rather than on the discipline at large.

These carefully selected board members will bring influence to the foundation through their own prestige and through personal associations with their professional colleagues. It is likely that their range of contacts will encompass many of the individuals, companies, and agencies on whom the foundation must rely for support.

While the trend in corporate giving is changing from "who you know" to "what you know" and "how well you do," access to those persons who occupy decision-making positions is important. The institution can tell its story directly, make its case, and seek a full and sympathetic hearing. Another job of the foundation is to enlighten dedicated volunteers to the legislative process in our state capitols.

These days, many corporations are tending to support programs that are in their self-interest. They now view their contributions budget as a corporate resource that should be deployed in ways that support other corporate objectives. Through their first-hand experience, foundation board members can help shape proposals that match donor interests with institutional needs.

The schools and programs of the university use the resources accumulated through the work of the foundation boards for teaching, research, and public service. Donors designate some funds for restricted purposes, but all unrestricted gifts are available for use where the needs are greatest. The dean or director of the school or program that the foundation represents prepares the annual budget. The chancellor reviews the budget and the executive committees of the respective foundation boards give final approval. The multiple foundation system ensures that the budget prepared for each school reflects that school's perception of its own best interests.

Each foundation board has its own investment committee. Members are elected for their financial management expertise, and they establish investment objectives that best suit the needs of their own schools. This is a mixed blessing as we shall see later, but it does have obvious advantages. As an example, several of the more recently created foundations do not yet have endowments sufficient to produce the dependable annual income needed to support program commitments. The investment committees of those foundations will set objectives that stress high return rather than growth and capital appreciation.

Volunteer investment committees offer another benefit. Professional acquaintances and friends of committees members are potential donors. When the donor knows and respects the abilities of those who will be managing the gifts, he or she just may be more apt to support that foundation.

The university's vice chancellor for finance and business and the vice chancellor for foundations and university relations serve as treasurer and secretary, respectively, of each foundation board. They attend meetings of the boards not only to present reports, but to give to the other members valuable perspectives on finance and investment policies and total fund-raising efforts of the entire university. The availability of these vice chancellors for advice and guidance at individual foundation board meetings is a tremendous advantage.

One final advantage about a multiple-foundation system is the flexibility of fund-raising and spending procedures it offers. One may argue with justification that a single foundation would avoid some of the restrictive state requirements. However, the existence for each foundation of a set of annual development goals and a corresponding budget for using the funds raised provides a blueprint that has received the prior blessing and approval of all concerned. Carrying out the plan becomes a simpler process.

These, then, are the notable advantages of a multiple foundation system as at North Carolina State University. Let us turn now to some of the problems.

The disadvantages

A cardinal rule in fund raising is that managers should not engage more volunteers than they can service well. As noted previously, North Carolina State has a total of 631 volunteer board members. Unless a large staff conducts the business of the office, that number of volunteers will test one's abilities.

Board members alone are just the tip of the iceberg. Active development programs will have special projects going on all the time. These will be memorial funds, planning efforts, special campaigns, and the like. Each of these projects requires the identification, selection, training, and use of another group of volunteers.

If you view this system in terms of number of meetings alone, the disadvantage becomes graphic. The full boards meet twice yearly, investment committees at least once, nominating committees at least twice, executive committees at least once. Some of these meetings last more than one day. Excluding weekends and holidays, there are about 250 work days in a year, and the meetings just mentioned consume all or part of 100 days. Add to this the staff time required to call the meetings, reserve space, select menus, plan events, prepare agenda materials, prepare and send out minutes, and take care of all the little details that assure a smooth and worthwhile meeting, and that covers more than half of the working year for a minimum number of required meetings of foundation boards alone.

Coordinating efforts is a major concern with multiple foundations. The constituency of North Carolina State University is large, and the staff is constantly seeking and cultivating first-rate volunteers. Realistically, the university has identified, engaged, and become dependent on a small percent of the total constituency. This means that the entire university is vying for the time and attention of a relatively few people. Within the foundation program itself, the staff has to be careful that nominating committees are not approaching the same person for election to several boards.

Coordination is particularly important in solicitation efforts. All universities have problems with this no matter how fund-raising programs are organized. More and more often donors complain about appeals for annual giving, capital campaigns, estate planning programs, and special projects. If they are affiliated with business or foundations, the university is apt to ask them to assist in presenting its case to the decision makers in their organizations. A multiple foundation program exacerbates this problem. We must exercise great care to see that we don't approach potential donors excessively. Local companies with reputations for supporting local programs are particularly susceptible to excessive solicitation. The development office staff is responsible for providing the coordination that matches prospects with appropriate programs and avoids damaging duplication of appeals.

The most useful kind of gift to the university is the unrestricted gift. It can be used by the institution where the need is greatest at the moment. Multiple foundations tend to attract restricted gifts. We welcome gifts sought and secured for specific purposes along with all gifts, large and not so large. But the breadth and depth of programs in a school can be limited if projects with particular appeal attract a lion's share of available support. Venture funds, discretionary funds, and funds for administrative expenses can be in short supply if we don't make a conscious effort to secure unrestricted gifts.

Fiscal matters offer several small concerns under a multiple foundation system. Taken together, these matters can result in increased costs of operation and in decreased revenues. For that reason they are worthy of note as one considers a multiple foundation system.

Each of the foundation investment committees engages its own fiscal agents to manage the investment program under the committee's policies and guidelines. These investment programs may not be as flexible as one would wish because some foundations do not have sufficient resources to make some good investments practical. This means that overall resources tend to be split among smaller units, with a resulting increase in risk. One sees this situation most often, of course, in the more recently created foundations whose endowments are still relatively small.

Even though members of the investment committees are elected for the expertise in finance they can bring to the job, the system has its drawbacks. First, if the cream of that talent was brought together in one committee, and if the resources of all the foundations were pooled, investment results might be considerably more impressive.

Second, investment committees generally elect to engage the services of bank trust departments. As a result, management fees are greater for multiple foundations than they would be if the bank trust departments managed the larger sum of one pooled fund. Fee systems favor the larger investor.

Third, each foundation is subject to an external audit annually. Each foundation engages an accounting firm to examine its books and prepare a report. Again, these auditing fees are greater for multiple foundations than they would be for one umbrella organization.

In addition to the extra fee costs for multiple foundations, there are extra costs for services to these foundations. Internal auditing and general business services for foundations require considerable staff services in the office of the vice chancellor for finance and business. Those offices provide the full range of business services for all 14 of the foundations, with separate records for each. This is a substantial undertaking.

A last consideration involves some of the practical implications of multiple foundations for the foundation and development office itself. Contrary to a single-foundation system, general office systems must be designed to accommodate multiple foundations. That means that the development office must follow 14 budgets, in addition to the university budget, in its day-to-day operation. North Carolina State makes an attempt to apportion these costs equitably among the 14 foundation budgets in such line item areas as travel, supplies, equipment, printing, postage, and the like. Obviously, this means that the development office must carefully anticipate needs, must prepare 14 budgets, and must maintain 14 sets of books to guide expenditures. It can become something of a juggling act.

Likewise, the development office must design and maintain donor files and reporting systems to accommodate the needs of a multiple-foundation organization. The office must segregate prospect files and giving records for each foundation to some degree. Daily receipts must be posted to the proper accounts, and the number of accounts to be serviced reaches rather large proportions. Acknowledgments, receipts and letters of appreciation to donors are tailored for each foundation. Fourteen letterheads and other such printed office materials must be used as the occasion requires.

As you can see, there are myriad other details to work out in the multiple-foundation system in order to adequately service the donor and university. Every institution must weigh carefully the pros and cons of the arrangement and choose the system that best suits its needs.

Chapter 11

THE COMMUNITY COLLEGE FOUNDATION

by Lynn M. Degerstedt
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Just as a community college is a different institution of higher education, so is the community college's foundation. The difference lies in the word "community," and a form of ownership the community feels for it.

To understand the community college foundation, one must first understand community colleges. They have a unique mission, serving a defined, usually limited community, both geographically and in the size and mix of their populations. They have been called "people's colleges," rising as they did from educational needs that people in communities across the nation recognized for themselves. In many cases, they grew out of adult education programs developed by school districts. In others, they grew from technical programs or junior colleges taking on a new community dimension to serve educational needs that adults in the community had discovered for themselves.

Other patterns of education in elementary, secondary, and four-year colleges and universities have their roots in the traditions of Western Europe. Two-year community colleges were not modeled after European education. They originated in the United States, and community ties to them are strong. In many ways, they were an early manifestation of American society's awareness that education would be important throughout their lives in a pattern fast becoming known as life-long learning.

Not many community colleges have more than a half-century of history behind them. From the earliest experimentation with the community college idea at the University of Chicago in 1901, the concept grew slowly. Junior colleges offering freshman and sophomore years with a community dimension emerged gradually until the post-World War II decade in the 1950s. Then the idea of the comprehensive community college with the community as its center became an idea whose time had come. Growth was explosive, reaching a peak in the 1960s when an average of one community college a week was opening its doors somewhere in the nation.

Community colleges were new. In the 1960s and 1970s, like adolescents grappling with adulthood, they were struggling with an identity problem. They had grown in response to seemingly endless educational needs (and seemingly endless funding), and their leaders faced a new need: Sift out the community college's missions and identity.

Now, in the 1980s, the mission is well established as one of providing quality undergraduate and vocational education and training and retraining for employees, with an added dimension of community-based adult education and student and community services. The new question has become more basic: How to fund the best and most necessary of this educational milieu in an era of shrinking tax support.

In characteristic form, many of the nation's 1,200 community colleges are returning to the communities from which they grew for their redefinition and their renewed support. In the main, the mission of the community college has been defined to the satisfaction of the communities supporting them. Communities have liked what they have found in their community colleges and they are rallying around efforts to support them through community college foundations.

Despite the potential for community support, however, the nation's 1,200 community colleges are still in a period of experimentation with the foundation and other forms of seeking external support. A successful community college foundation effort offers much potential, but it also requires commitment by the institution, and constant nurturing and communications to its constituency before it becomes an institutional, ongoing reality.

On one score there is almost universal agreement among those charged with community college development: Organization and development of a foundation is a serious step that should be taken only with full endorsement of the board, president, administration, and faculty, and only with commitment of sufficient resources to carry it through the three years until "payoff time." A successful community college foundation must state its case clearly. It must depict the college and its mission as deserving of extra private funding on a continuing basis. To do otherwise in a feeble, inconsistent effort carries too much risk of adverse public opinion, and it is much more difficult to revive a foundation than to begin one in the first place.

More community colleges than ever before are forming nonprofit foundations. One study by Harvey Sharron in 1978 found that there were 546 public community college foundations either active or inactive among 1,037 colleges in the 48 states for a total of 52 percent of those surveyed. A national study that I conducted in 1978 showed similar results, with 58 percent having a nonprofit foundation. Their growth is rapid, however. Until 1968, only 23 percent of the foundations had been formed. During the decade of 1969-1978, however, 65 percent of the total number of foundations formed, for an average of 11 per year, with greater numbers projected for the two years ahead.

Of the 42 percent of community colleges reporting no foundation in my study, almost half reported no plans for forming one. A substantial number reported this as a deliberate decision; their current forms of fund raising through informal activities and alumni/student groups were considered adequate. The remainder planned formation of a foundation at varying target dates within the following five years.

William Harper, former vice president of the American Association of Community and Junior Colleges, described the advantages of a foundation in a 1976 article:

> Community colleges that take the foundation route do so for good reasons. In many states it is the only way a college may disburse gifts and grants; in others, restrictions make fund raising by the institution cumbersome. More than serving simply as a conduit for gifts and grants, the private foundation also provides a means of fostering interest in, and appreciation for, the work of an institution. This is particularly important for community colleges, where there may be less than strong alumni groups and other organized supporters. A strong board of prominent and aggressive citizens cannot only open doors to support dollars, but can also help to infect other citizens with a sense of good will toward the college that may pay off when the institution itself goes after tax dollars through bond campaigns or state budget requests.

The decision by a community college to form a nonprofit foundation is not one to be taken lightly. It involves adding a new--and quite likely, fruitful--dimension to the community college. In large part, the steps for forming a foundation, as outlined by Harvey Sharron in "The Development and Organization of the Community College Foundation," available from the National Council for Resource Development, are both valuable and valid.

The legal steps for forming a nonprofit foundation have been used and refined for decades. They must be carefully followed with the aid of competent legal help; but forming a foundation is not just a pro forma task. The community college foundation is close to its donors and has more subtle implications. It must be built on a solid legal and organizational base and must be entered into from as much a "friend-raising" as a "fund-raising" approach. A deep reservoir of support for a community college lies in the community itself. Forming a foundation is an excellent way to make visible the college's need for support of its activities and to provide the community an active way to support them.

Where the legal form would be much the same everywhere, the actual operations of community college foundations are almost as varied as community colleges themselves. One foundation, informally called "The Bucket," was organized around intense activity to form a community college in the Midwest. The foundation's serious and essential purpose was to help the board of trustees make the college dream a reality by providing a receptacle for gifts of all kinds for the benefit of the college. Its nickname arose when an attorney recommended forming the foundation at a citizens' meeting by saying "Let's put out the bucket and see what will fall into it." Fourteen years later, that bucket was filled with gifts and contributions worth more than $1 million. Dropped into it had been, among other gifts, an analog computer, a 210-acre campus, and many bequests with the largest totalling more than $250,000.

Shelba Robinson, in a year-long study entailing personal visits and telephone interviews with community college foundation personnel across the nation, identified at least five different types of foundations. She labeled them as follows: (1) holding corporations, (2) "Old Buddies" or personality foundations, (3) structural agent or operating foundations, (4) special purpose foundations and (5) comprehensive foundations.

The holding corporation foundation is essentially passive. Its only activity is to manage assets in a manner stipulated by the donor or determined by a small foundation board. Another name might be "windfall foundation," because it usually results from a single, large gift by a single donor. The Miami-Dade Community College Foundation is an example with over $1 million in assets resulting from one donor. Earnings from conservative investments are used for scholarship purposes. The Lower Columbia Community College Foundation has similar assets resulting from a gift of stock. It has used the earnings for scholarships, land acquisitions, and nurturing student and community cultural activities.

The "Old Buddies" or personality foundation centers around a single individual, a long-time community member, who leads the foundation almost as a personal charity, except that the funds all go to the college. This dominant personality knows everyone in town, and the personal network of those in the upper income social group provides the funds for the foundation. Usually the funds are used for scholarships, but they may extend to special needs. This type of foundation is highly informal and is most often found in stable, homogeneous communities, usually relatively isolated from major urban centers.

The structural agent or operating foundation exists to remove certain activities from the main college budgeting process. It exists as a separate legal entity that can conduct transactions not permitted or inappropriate for a public educational institution. Commonly, these foundations manage real assets or conduct profit-making activities. They do not as a rule raise funds or solicit gifts unless the gift is a large asset that could be managed for profit. An example is a farm operation resulting from gifts to the college's foundation and that is leased to agricultural students and the community. Another is a student services foundation that runs all campus food services, the bookstore and other activities. One college with such a foundation was able to construct a handsome student building resulting from the profits. Such a foundation obviously must be carefully organized and operated to protect its legal status.

The special purpose foundation is created to solicit, manage, and disburse funds for a single cause, most commonly scholarships, but also for other specific programs, such as athletics. Some colleges take the view that when they have a special need, they create a new foundation. One college reportedly has four separate foundations, each with a varying track record of success.

The comprehensive foundation actually may encompass all of the four preceding types. Its design permits support of the widest scope of college programs through a board range of fund-raising and asset-managing techniques. It can raise money for general college support or accept designated gifts for specific activities. It can manage investments, equipment gifts, and endowment funds, and it can conduct capital campaigns. Practically the only limits to this type of foundation's goals and efforts are the imagination and energy of its staff and board and the limits imposed by the Internal Revenue Service. While there may be other limits imposed by state laws, the IRS carefully categorizes the community college foundation as a "single-purpose foundation." Such a foundation cannot serve broad interests. To preserve its tax-exempt status as a 501(c)(3) organization, a community college foundation must restrict its activities to benefiting students, programs, services, facilities and activities of the college itself, as defined in the college's mission statement. From a practical viewpoint, this only prevents embarking on some broad social mission not linked in some way to the college's educational mission.

Robinson concludes that the four earlier types are part of an evolutionary process in community college foundations. In all cases, they were organized for a special purpose or out of a special need in the community college district. Most community college foundations organized now have in mind a broader, deliberate purpose. They begin as a comprehensive foundation, just as their colleges are now comprehensive community colleges.

The comprehensive foundation umbrella offers ample room to provide for special activities, restricted gifts, equipment gifts, endowment funds, capital projects, and other operations. The Clark College Foundation, for example, contains aspects of all five categories. It holds property and equipment, manages investments, sponsors scholarships and special events, and has operated a successful Seminar Center with paid personnel to bring needed cultural, management, and other special-purpose educational programs to its community as a flexible extension of the college's activities. The Santa Fe Community College Endowment Corporation operates 14 major programs, including a nationally recognized art gallery.

The community college foundation cannot be set down in a community college district in any single, standard form, except in its basic legal and accounting structure. To be successful, it must be built around real needs of the community and the college. The community must be able to identify with and support those needs.

A workshop organized in 1965 to explore community college fund raising heard one veteran cite three imperatives in seeking private philanthropy that are still with us today. The first is the principle of an honest exchange of values: "What are the satisfactions you can offer the giver?" Pride and thanks were absolute minimums suggested.

The second imperative is that donors like to support well-organized going concerns. Real success in attracting significant gifts is based on systematic, sound, but imaginative and progressive institutional planning. Good response comes to progressive projects, plans and programs that are exciting, aggressive, imaginative, thoroughly documented and presented in a compelling, interesting way.

The third imperative is institutional leadership. St. Paul wrote to the Corinthians: "If the trumpet make an uncertain sound, who shall prepare himself for the battle?" One of the real problems faced by many colleges in their effort to merit significant gifts is that they emit only a series of uncertain toots from their leadership.

To be truly successful, a community college foundation must have the support of the college president; endorsement and understanding of its board and administrators; and all must work constantly to build understanding of the foundation's role among faculty and staff.

The foundation board is a separate group of leading citizens from the community who are organized to stimulate and provide outside support for the community college's aims and needs. The foundation must rely on the college president to provide leadership in identifying these needs and ways in which the foundation can support them. Ideally, the president is the chief fund raiser, but the minimum the president must provide is articulation of the college's plans and goals and an understanding and support of the foundation in its volunteer efforts.

On the average, community colleges are small. Very few of their foundations have assets enough to provide their own paid staff, and few community colleges provide more than the half-time support of a director of development and necessary secretarial and accounting support for their foundations. A promising new idea some are adopting is the organization of a "development team" among its administrators headed by the president or director of development. The development team members focus as a group on identifying college needs and possible resources, and offer aid to the foundation effort. One administrator may be assigned a lead role in events and activities, another in fund raising, another in the management of investments and acceptance of equipment and other tangible property. Still another may be assigned scholarships or major gifts or become the "resident expert" in deferred giving. All work in tandem with an appropriate group or committee of foundation directors.

Undoubtedly, more and more organizational methods will be found to enable community colleges to better and more easily take the foundation route. Where they have done so in a planned, sustained manner, rewards have been great. As an example, in 45 years of its 50-year history, Clark College had received only one bequest for scholarships and other aid. Since reorganization of the Clark College Foundation five years ago, it has received six, the largest bequest totalling $250,000, and with more on the way. In property, equipment, stocks, and cash, the foundation is now approaching $1 million in assets. Nearby Green River Community College, scarcely two decades old but with a five-year-old active foundation, now counts over $2 million in deferred gifts and bequests along with other support.

In many ways, a community college foundation restores and strengthens the college's community dimension, by providing a visible way in which the community can support it. Through the foundation, the community can retain or stimulate a margin of excellence in both programs and service that shrinking tax dollars may have blunted. And across the land, communities have shown that they will support their community colleges' needs when they are well planned, well stated, endorsed and supported by their very own nonprofit foundations.

Chapter 12

THE HEALTH-RELATED FOUNDATION

by David C. Lawrence
Director of Development
Mayo Foundation

A health-related foundation may be any one of a number of fund-raising entities, each different in specific purpose, organization, and operational style. Health-related foundations may focus on a particular disease, or may be affiliated with non-proprietary hospitals, medical research facilities, or teaching centers.

Typically, hospital-related foundations focus on fund raising for capital projects. Hospitals always need new equipment to expand and improve patient care and diagnosis; fund raising plays a vital role in supplying these capital needs.

Appealing to donors

Hospitals usually appeal for gift support from patients and their families, corporations, foundations, and the general population within the hospital's service area.

Standard practices of fund raising apply to hospital foundations as much as to other types of foundations or fund-raising agencies. Typical fund-raising methods involve a mix of direct mail appeals, volunteer solicitations, specific proposal writing, fund-raising events (such as galas and golf tournaments) and staff-conducted solicitations. A new development program may emphasize visibility for its fledgling fund raising. On the other hand, a broad-based direct mail appeal to identify donors and build a donor base might be more appropriate. Sometimes the choice is between volunteer involvement or functions with a committee structure.

A danger signal for any development program, but most particularly a new program at a hospital, is a whirlwind of functions, activities, and mailings with very few dollars coming in. The development officer should never forget that significant gifts require personal solicitation by a key volunteer, the development officer, or both.

Separating fund raising and business aspects

Traditionally hospitals have operated on a fee-for-service or cost reimbursement system. Lengthy bills for hospital care itemize every service provided. Most hospitalization costs are passed on to "third party payers," such as employer-provided health insurance, privately purchased health insurance, Medicare, and Medicaid. The hospital must have a well conceived organizational structure to prevent its fund-raising activities from clashing with its revenue production or business aspects. For instance, gift support for a function ordinarily charged to the patient eliminates the hospital's chance to recapture the overhead associated with this cost when it bills the patient. Thus the gift may only partially reimburse the hospital for its costs.

Adding to this difficulty of cost reimbursement are the new prepaid health care systems which include health maintenance organizations (HMOs) and government-sponsored diagnostically related groups (DRGs). These rather complicated systems mandate that the hospital carefully position its fund-raising activities within its legal structure.

Identifying organizational models

Foundations supporting a specific hospital have evolved in two different ways. Some have borrowed their organizational structure and operational programs from other civic and social agencies such as art museums, libraries, or historical societies. A standard organizational model for these hospitals has been the YMCA. The alternative model has been the development structure and programs of higher education foundations. Some specific fund-raising models are:

1. Controlled foundations. In this setting two nonprofit corporations exist: the hospital and the foundation, both exempt from federal and state taxes. The hospital retains control over the foundation by appointing and removing board members. Typically, this type of foundation raises funds on a project-by-project basis. Since it has no provision to accumulate or invest funds, the controlled foundation must undergo consolidated financial reporting. Such reporting can lead to negative regulatory treatment that may prompt a hospital to choose a different organizational structure for its foundation.

2. Independent foundations. These are tax-exempt, nonprofit charitable corporations carefully established to avoid "private foundation" status by the IRS. Because the foundation is independent, the hospital cannot appoint a majority of its board. However, it is common practice to allow some board members to be hospital-affiliated. A delicate balance exists between a hospital and an independent foundation. A tilt toward independent foundation objectives that do not help the hospital subverts the mission of a foundation. A tilt in the other direction of too much dependence on the hospital for start-up expenses, public relations programs, and materials, jeopardizes the foundation's legal independence.

3. Holding companies. The most recent legal structure to emerge for hospitals and foundations has been borrowed from the corporate world. The concept of a parent corporation, or holding company, used especially in regulated industries like banking, is particularly attractive because of its ability to shelter assets and revenues within either the subsidiaries or the parent company.

In a holding company, the hospital becomes an operating subsidiary of a parent corporation. Other operating subsidiaries reporting to the parent are the fund-raising foundation and profit centers such as medical testing laboratories, health consulting/educational programs for industry, nursing care facilities, retirement housing, or even more diverse activities of a commercial nature.

The fund-raising foundation, operating as a subsidiary that reports to a parent corporation, is legally independent of a hospital--and more flexible. Normally its mission is to raise funds to support projects and programs of the hospital. In this setting either the foundation or the parent corporation may hold assets and accumulate funds. The foundation and the parent corporation maintain separate financial reporting, eliminating the problem of consolidated reports. Further, the senior person of the foundation is also a board member of the parent company assuring that the foundation will function in concert with the objectives of the parent corporation for the benefit of its hospital subsidiary.

The legal aspects of such a holding company are complex. Yet the new opportunities for increased revenues from operations, gifts, and earned income, without threat to cost recovery reimbursement, have prompted a large number of private, nonprofit hospitals to implement this option.

The health-related foundations associated with hospitals use all the common fund-raising methods typically associated with many higher education development programs. A visit to some hospitals would suggest they have truly perfected the art of donor recognition -- there is a plaque on everything in sight!

Planned giving plays an increasingly important role in hospital development programs. Such an emphasis is usually the mark of a mature, comprehensive program. One popular activity of such a comprehensive program is a gift recognition club or society for those individuals who have made an estate gift commitment.

The health-related foundation is an established part of the development community. It embodies a spirit of professionalism and sense of purposefulness and accomplishment similar to that found within other institutionally related foundations.

CHAPTER 13

THE SPECIAL-INTEREST FOUNDATION

by Dwight V. Roberts
Executive Director
Geological Society of America

The special-interest foundation raises and manages tax-deductible gifts for organizations or interests other than those serving educational or health needs. Some "special-interests" are: associations (American Bankers Association, YMCA, YWCA, Geological Society of America, American Bar Association); community (library, parks and recreation, city foundations or trusts, downtown improvement, school board); arts and humanities (symphony, opera, dance, fine arts); service clubs (Rotary, Elks, Lions); sports/athletics (Evans Scholars, United States Golf Association, Fellowship of Christian Athletes); environment/wildlife (Sierra Club, Audubon Society, Trout Unlimited, Ducks Unlimited).

As in other non-private foundations, each sponsoring agency or interest must be nonprofit and the associated foundation should meet the public support criteria.

The constituency of the special-interest foundation is generally broader than those associated with education-related foundations. It can range from worldwide support to dues paying members of a small professional association. Not unlike the university-related foundation, the special-interest foundation constituency supports the specific mission of the sponsoring organization. The mission, however, is usually narrower in focus.

Seeking tax-exempt status

Most special-interest foundations are created in much the same way as educational and health-related foundations, and usually receive similar status from the Internal Revenue Service.

The GSA Foundation was created in 1980. After it applied for and received nonprofit corporate status in the state of Colorado, the foundation applied to the Internal Revenue Service for tax-exempt status.

The key elements in submitting a request for determination are copies of articles and bylaws, copies of certificate of incorporation, and a statement attesting to the Foundation's eligibility for tax-exempt status. The wording of the articles and bylaws is particularly important. New foundations should model these on the articles and bylaws used by a similar organization.

The IRS will determine tax status in 60 to 90 days. Legal fees for this usually range from $1,500 to $2,000.

Appointing board members

As in any type of foundation, the trustees or directors are perhaps the most important ingredient for success. Often, the foundation trustees are men and women who would not necessarily be the best choices to serve on the sponsoring organization's board. They are selected for only two reasons: to raise and to manage gifts! Of the two, raising gifts is the more improtant.

The foundation trustee's primary task is to secure major capital gifts. For this reason the "bigger the better" rule applies. If possible, recruit the number one or two executives in whatever area of business is needed, the wealthiest members of your constituency, or the best proven fund raisers. I am also a strong believer in the "busier the better" rule.

The size of the board should be commensurate with the size of the goal and constituency. I would recommend however, a minimum of seven and a maximum of 30 board members.

Three-year terms are minimum and I strongly suggest that the board members be limited to two successive terms. No one bats 100 percent in choosing the "perfect" trustee, so leave the foundation an out.

The use (and abuse) of board members is the most critical assignment facing the foundation executive. Trustees must be thoroughly indoctrinated and continually cared for and supported.

Don't waste their very valuable time with adminsitrative detail. Plan their board meetings and one-on-one time carefully, making each minute a challenge to achieve results. Follow up board meetings with personal visits at their office or home and recognize their efforts publicly.

Determining a budget

The foundation budget obviously will be based on several factors -- how much money is available, the size of the staff, the size of the fund-raising challenge, the size of the constituency, and the time allotted to meet the challenge.

Budget items used by the Geological Society of America Foundation are: Personnel - salaries, pension, insurance; Office Operations - office equipment, printing/stationery, postage, office supplies, auto expense, travel and entertainment, trustee expense, accounting/audit, legal, telephone, research, professional development, publications, maintenance contracts, equipment lease expense, office lease expense, contract labor, and utilities.

If at all possible, lease or purchase a small computer as soon as possible to accommodate the budget, gift accounting, and constituent records. This may seem like an unaffordable luxury, but experience shows that the sooner an office requiring all these functions is automated, the better.

Soliciting gifts

Fund-raising techniques used by special-interest foundations are little different than those used by other foundations. As in any organization, a solid base of annual support must be established by direct mail and personal solicitation. Ideally, the annual fund should precede major gift solicitation. Often, though, the executive finds him or herself faced with immediate, large goals and does not have the luxury of slowly developing the annual donor base. With good, hard-working trustees the annual fund and the major gift programs can be launched together.

The first assignment should be to create a base brochure for the foundation. Such a publication should be designed to be relatively timeless, easily carried (coat pocket size), complete in its description of the organization and its objectives, and quickly read. This brochure should be used as the first mailing to the constituency. Constituents must know about the foundation and develop a trust in it before they will feel comfortable giving to it. It is best not to list the trustees in the brochure. Your letterhead can and should carry their names and is far cheaper to reprint.

As in educational fund raising, the best time for annual fund mailings most likely will be in the fall. During the first year, mailing the base brochure in September and following up with two additional pieces should be ample. The second mailing should be hard hitting and speak specifically to fund projects while the third, in late November or early December, should deal with the year-end appeal.

After the first year of operation, the foundation Annual Report should probably be the first mailing of the new year. The GSA Foundation usually sends its annual report to its constituency by late April or early May. It has proven to be an effective gift producer.

Personal solicitation for the annual fund is, of course, the best way to increase donors and dollars. Unfortunately, it takes a larger staff to service the large number of volunteers needed to do an effective job. Most newly created special-interest foundations are fortunate to have one paid fund-raising executive, let alone enough to handle hundreds of volunteers. The development officer's best bet is to do as much as time allows with a selected group of higher-rated annual giving prospects.

Because the development officer wears so many hats, he or she should try to schedule as many calls as possible each day and night for two or three days at a time, while on the road. This should leave two or three days in the office each week.

The role of trustees/volunteers cannot be overemphasized. Let me cite an example from the Geological Society of America Foundation. I, as president of the Foundation, and a very strong trustee made calls on 21 major energy companies in a two-month period. Because of the trustee's influence, he was able to set up each call for us with someone whom he knew personally. For the first time in 22 years in this business, I saw us receive commitments from all 21 at the giving levels we had assigned to each. Clearly, the trustee was the right person asking for the right project at the right time!

Not all corporations and foundations are receptive to making gifts to special-interest foundations, and few corporations will match gifts to them. For this reason, several personal visits and patience will be necessary in building a strong relationship with the foundation's special constituency.

As a general rule, planned or deferred giving programs are not as successful for the special-interest foundation as they are with educational, religious, and health-related foundations. There are, however, opportunities for deferred gifts and these should not be overlooked. Once the foundation has built a solid base of donors and has done a good job of researching its prospects, it can achieve some success.

The Geological Society of America Foundation began a planned giving program with a selected list of 1,800 prospects during our second year and by the middle of our third year had received 300 responses. The investment has been worth it.

Managing Funds

An important part of the foundation executive's job is to manage the funds the foundation raises.

During the foundation's early years, funds probably will need to be quite liquid. Savings accounts, NOW accounts, CD's, repurchase agreements, and Federal Funds are the safest investments with high returns available. These can all be purchased through a local bank. As the foundation endowment grows, longer term investments such as equities and bonds will be needed to provide growth.

Establishing a trustee investment committee and/or retaining professional counsel for investment purposes is almost a necessity for a new foundation. The reasons for this are several. Donors need to be told how their funds will be invested and the use of an investment committee and/or professional counsel gives them a greater sense of security for their gifts. In addition, an investment committee gives the foundation executive an opportunity to appoint skilled and important people to a working committee for the foundation. In other words, it provides the opportunity to involve a greater number of skilled people in the foundation work. Also, a properly appointed committee provides the foundation with a stronger organization -- which may have legal ramifications with regard to investment policies or actual investment priorities.

The special-interest foundation can be an exciting challenge. It offers the opportunity to run a small version of the large university-related foundations without the accompanying headaches that naturally come with size. Conversely, the executive director is often all alone and the success of the foundation rests on his or her shoulders. Setting and following appropriate goals and priorities can, however, bring success and a sense of accomplishment and pride not easily felt as part of a larger organization.